1979 MANITOBA BUDGET ADDRESS

Honourable Donald W. Craik, Minister of Finance

MANITOBA

MANITOBA BUDGET
1979

Honourable Donald W. Craik
Minister of Finance

May 15, 1979

MANITOBA BUDGET - 1979

TABLE OF CONTENTS

	Page
The 1980's — Challenges and Objectives	5
The Economic Situation and Outlook	10
Year-End Position — 1978/79	15
Main Estimates of Expenditure — 1979/80	17
Supplementary Expenditure Estimates — 1979/80	18
Revenue Estimates — 1979/80	20
Tax Reductions	20
Budgetary Summary	25
Non-Budgetary Capital Financing — 1979/80	26
Energy Rate Stabilization	27
Conclusion	32

SUPPLEMENTARY BUDGETARY INFORMATION

Appendix A — Financial Statistics	39
Appendix B — Economic Review and Statistics	51
Appendix C — Recent Ministerial Statements on Fiscal and Economic Matters	69

MANITOBA BUDGET — 1979

THE 1980's — CHALLENGES AND OBJECTIVES

Mr. Speaker:

Traditionally, the end of one decade and the beginning of another is a time for reappraisal . . . for reassessment . . . of directions . . . and goals . . . and accomplishments.

In Canada, such a reappraisal is long overdue. During the 1970's, the accomplishments have been less than we could have expected, and, too often, were somewhat transitory or illusory . . . while the problems . . . both economic and social . . . have intensified, and fuelled a lack of confidence in our people . . . who, by every yardstick known, should be not only confident . . . but demonstrably leading the way in economic and social achievement.

For ten years . . . and longer . . . senior governments, both federal and provincial, have been mortgaging the future of this country . . . without due regard for the validity and integrity of the present economic base . . . and the heritage our children have a right to expect.

A sluggish economy . . . inflation and unemployment . . . more often than not, aided and abetted by government policy . . . and larger and larger deficits . . . are only some of the problems which we must tackle successfully if we are to make the '80's a "decade of development."

The next ten years will bring this country face to face with among the most important economic and political challenges since Confederation. . . .

For Manitoba, the challenges will, in many ways, be a representative microcosm of those facing the nation. . . . The decisions we take now, and in the next few years, will be critical in determining whether the 1980's . . . and indeed the remaining twenty years of this century . . . will see the realization of our province's full potential. . . .

Based on the problems of the past several years, some forecasters have been less than optimistic in their predictions for the near future in Manitoba. And . . . assertions have been made by some socialists and other naysayers that the private sector of our economy is unable or unwilling to provide sufficient impetus for sustained growth . . . and that the state must move in with massive expenditures of taxpayers' dollars on projects of doubtful viability . . . regardless of the obvious implications of deficits and over-expenditures. . . .

Those kinds of predictions . . . and that kind of attitude . . . are

indicative of precisely the type of negativism we have to overcome in this province . . . and overcome quickly. While in some cases it may be well-intentioned, too many times it is self-serving . . . designed to support a misguided ideology that an ever-growing public sector . . . more and more government intervention, takeovers and control . . . are essential and inevitable. It is also destructive . . . because it causes uncertainty and undermines the confidence that is so vital to assuring the productive investment, and the permanent job creation, which only the private sector can provide.

Confidence is fragile, and . . . once eroded . . . is very hard to restore. Our Government is not underestimating the rebuilding tasks ahead. . . .

On the other hand, we know we have the strong support of the vast majority of Manitobans for the goals and policies we have established thus far. The citizens of this province are well aware of the alternative — the wasteful, doctrinaire approach which led directly to the stagnation of the mid-1970's . . . from which we are only now beginning to emerge.

In an attempt to support some of their claims about current economic issues, our friends opposite sometimes like to quote selected statistics from such sources as the Conference Board in Canada. . . . Unfortunately, they seem to have forgotten what the Conference Board said about the last three years they were in office. . . . Here is what the January, 1979 Conference Board Quarterly Forecast stated:

> *"For Manitoba, 1978 and 1979 can be characterized as years of moderate recovery, in the non-agricultural sector at least, from the **sluggish** economic conditions prevalent since 1975. The **period between 1975 and 1977 was one of general recession in the province,** since constant dollar non-farm production (which captures business cycle swings in production more closely than does total provincial output) **did not register any growth at all.**"**

While we don't always agree with the Conference Board's forecasts, we have few problems with their after-the-fact analysis. It confirms what the Members opposite wouldn't admit, but what the people of this province could sense. . . . Their policies were ineffective and inappropriate . . . and a direct cause of stagnation in our economy. New directions were essential . . . and the citizens of Manitoba recognized that clearly when they went to the polls in October, 1977.

**Conference Board in Canada. Quarterly Provincial Forecast. January, 1979.*

Our Government's primary objectives for the 1980's can be stated quite simply: to ensure that it is a decade of responsibility and accountability in government . . . and a decade of recovery and stability for the Manitoba economy . . . and for all our people.

These basic financial and economic goals are closely related. A sound, responsible budgetary policy is an essential prerequisite for sustained economic development.

Our specific economic objectives are clear and straightforward as well:

- Strong, steady growth in employment and incomes, centred in the productive private sector;
- A continued fight against inflation, so far as it is within our power to do so;
- Greater stability and fairer returns in agriculture — still the backbone of our economy;
- Renewed development of our natural resources — for the benefit of northern Manitoba and the entire province;
- Expansion and diversification of our industrial structure, particularly in manufacturing, where the greatest potential exists for permanent job creation;
- Increased competition, and reduced government intervention in the day-to-day decision-making that is so essential to making our market economy work effectively; and
- A cost of government that is within the means of our taxpayers.

We want to ensure that the increased opportunities from economic expansion in Manitoba will benefit all our citizens. . . .

Let me make it clear that the key word is "opportunities." We believe in individual initiative and in providing incentives for hard work, risks and special skills. That is the essence of our market system and the key to realizing our potential. We generally reject rigid controls, except in extreme situations . . . and we categorically reject state-imposed distribution schemes that would presume to tell the people of this province what they can . . . or cannot . . . earn to support their families . . . or to provide for their retirement years. The infamous "two and a half to one" income levelling formula propounded by the Opposition . . . and their dogged adherence to the proposition of taxing estates in a punitive way . . . are, blessedly, things of the past.

For pensioners, and others who may need assistance, income support programs must be sufficient to ensure dignity and well-being.

But . . . for people who are able to work, permanent, productive employment is the answer — not "make work" projects, or welfare-type payments which discourage initiative and foster a debilitating dependence.

As I indicated earlier, these economic goals are directly related to the key fiscal policy objectives set out in our first Budget last year, which were:

First — continuing moderation in the rate of government spending, to reduce the public sector's share of Gross Provincial Product over time, and lessen its demands, in relative terms at least . . .

Second — greater efficiency in government programming, to ensure that improved and expanded services can be provided for those who require them . . .

Third — rationalization of taxation measures, to simplify our tax structure and make it more competitive, and . . .

Fourth — improved financial reporting, to ensure that the citizens of Manitoba have up-to-date, factual, and understandable information about their government's budgetary position.

In my 1978 Budget, I made it clear that **our challenge is not to restrict essential services for the people of Manitoba. Rather, it is to help build and maintain the economic base which will make these services possible.**

Mr. Speaker . . . that is the overall goal.

Nine months later, in the 1979 State of the Union Message, President Carter said much the same thing in outlining his objective of a "new foundation" for the American economy. I think some of his words bear repeating here:

*"In our government **it is a myth that we must choose between compassion and competence.** Together, we (must) build the foundation for a government that **works** . . . and that **works for people.** . . .*

• • •

*To be successful, we must change our attitudes as well as our policies. **We cannot afford to live beyond our means, to create programs we can neither manage nor finance,** or to waste our national resources. . . .*

• • •

***. . . it is not enough to have created a lot of government programs. Now we must make the good programs more effective, and improve or weed out those which are wasteful or unnecessary.**"*

The fact that consolidation and rationalization are recognized to be necessary in the United States, where the scale of government activity . . . in relative terms . . . is substantially smaller than in Canada . . . underscores the urgency of similar action in this country.

Greater program effectiveness has been a top priority of our Administration since we took office, and, as I said earlier, it was one of the major objectives outlined in our first Budget last year.

I described our Government's 1978 Budget as a transitional Budget . . . the first step in re-establishing a sound financial and economic base for recovery in our province. . . .

That Budget served its purpose, and served it well.

Almost every sector of the economy experienced an upturn in 1978. In some cases, the improvement was modest, and less than we would have liked to see. . . . But, in others, it was substantial . . . and encouraging to our Government and to Manitobans.

After barely eighteen months in office, we can point with a sense of real accomplishment to growing evidence that a turnaround is taking place . . . and that **the people of Manitoba can now look ahead to the 1980's with genuine and justifiable confidence.**

In only a year and a half, measurable progress has been made toward every one of our economic and financial objectives, and . . . later in my Address . . . I will give the details.

Possibly the best evidence, however, can be found in the "bottom line." The heavy and restrictive deficit burden which we inherited from our predecessors has been reduced in a major way in the past year . . . by even more than we had anticipated in our 1978 Budget . . . despite the fact that our Government introduced a number of significant tax reductions in line with our commitments to the people of Manitoba.

Many skeptics suggested that it couldn't be done . . . that the deficit could not be reduced, and taxes could not be cut . . . without serious disruptions and deterioration in essential services. In fact, we have proved that it **can** be done. . . .

Those who argue differently have failed to prove their case. They have only succeeded in demonstrating their totally irresponsible disregard for the hard-earned tax dollars that must support government programs in this province.

In many ways, our record stands as a model for other jurisdictions,

which are now following a similar course. And . . . the First Minister of our province deserves much of the credit for influencing the other First Ministers of this country, in early 1978, to take their positive, joint positions on goal-setting in relation to private and public sector responsibilities in fighting inflation and strengthening our combined economies. This kind of courageous, common-sense leadership will continue to be badly needed at all levels of government . . . for the 1980's . . . and beyond.

Our Administration will continue to aim for a balanced budget — not necessarily on a rigid, "every year" basis, but certainly over a medium term period, when economic conditions improve further. **We believe a permanent budget deficit would mean permanent disparities and permanent erosion of our economic strength . . . and our ability to maintain services.**

Perhaps the greatest challenge for our Administration and others in the 1980's will be to hold to this course of fiscal responsibility . . . and not be drawn toward the shoals of superficially-attractive, but costly short-term "band-aid" solutions, whose immediate impact may appear to be positive, but whose long-term effect could well be to undermine our recovery.

Tonight's Budget is an important part of our response to that challenge.

THE ECONOMIC SITUATION AND OUTLOOK

The Economy in 1978

Earlier, I pointed out that almost every sector of the Manitoba economy experienced an upturn in 1978. Most of the facts are already well known, and Members will find an economic review with the full details included with the text of my Address when it is tabled later tonight.

For all Manitobans, the 1978 highlights should be encouraging:

- a gross output of over $9.5 billion . . . an increase of about 10% over 1977;
- real growth of close to 3% . . . compared to almost no growth at all the previous year;
- private sector capital investment up 22% . . . three times the increase the year before . . . and **the fastest growth of any province in Canada;**

- a 21% increase in the value of agricultural production . . . almost double the growth rate a year earlier;
- a 26% increase in farm cash receipts . . . compared to no growth in 1977;
- nearly a 17% increase in manufacturing shipments . . . four times the percentage in the last year our friends opposite were in government;
- a 29% increase in housing starts . . . compared to under 1% in 1977; and
- a 9.3% increase in retail trade . . . double the increase in the previous year.

And, perhaps most encouraging of all, was the strong rate of employment creation in the province. On average, there were 11,000 more people with jobs in 1978 than there were a year earlier. The rate of increase was nearly four times that of 1977. And . . .**the private sector accounted for the entire increase.** Manufacturing employment alone increased by 5,000 . . . and is approaching former levels following a serious drop-off.

While the average unemployment rate for the year was higher than in 1977, it remained well below the national average, and over the last several months — including April, for which figures were released today — the rate has been below 1977 levels on a seasonally-adjusted basis.

The strong increase in employment last year was reflected in improved incomes. Both total personal income and personal disposable income increased more quickly last year than in 1977 . . . in each case by over 10% according to our preliminary estimates . . . and by more, according to the latest estimates released by the Conference Board in Canada.

Of course, it is important to emphasize that, in the national context, some of these year-over-year increases appear relatively modest when compared to those in some other provinces. And . . . in certain sectors . . . the growth rate was lower than a year earlier. Tourism experienced its second slack year, and in mining, the value of production decreased from 1977 levels, although revenues to the Province recovered somewhat late in the last fiscal year.

The difficulties facing the world-wide mining industry were, of course, foreseen and well known, but that was no consolation in view of the importance of this key industry to our economy. Fortunately, there are signs of an upswing in mining, and there have been a number

of predictions that 1979 will be a year of renewed strength. Later in my Address, I will outline specific proposals designed to ensure that the tax laws of this province won't undercut this projected improvement.

Before I deal more generally with prospects for the balance of the current year, I want to touch briefly on a matter which was raised earlier this Session . . . the question of migration patterns both to and from our province. As has been stated a number of times, the net migration figures for 1978 were larger than in the previous year . . . but **not** because of a greater-than-average outflow of Manitobans. The figures reflected reduced in-migration, and the same phenomenon occurred in the majority of other provinces as well. While recent quarterly population estimates from Statistics Canada have indicated a slight downturn, the same pattern has not been reflected in the population totals generated from the records of the Manitoba Health Services Commission.

Obviously, however, the general question of out-migration is a concern of any government. Manitoba is continuing to lose too many of our well-trained young people . . . although possibly now more to the "hot" economies of our western provincial neighbours than to Ontario. But, while the destinations may be changing, the general trend has been a fact of life in this province for far too long . . . and, although we believe our policies should reverse the trend gradually, we aren't likely to see a dramatic change in the near future and are not predicting one. I would remind the Members opposite that they had an opportunity to help alter this long-standing pattern . . . but, instead, they imposed the most punitive, incentive-destroying tax system in the country . . . and coupled that with musings about "two and a half to one" . . . the "big brother" formula.

Economic Prospects for 1979

For the remainder of 1979, the outlook for the Manitoba economy . . . and for the national economy as well . . . is somewhat mixed. And . . . the current flood situation adds even more uncertainty. . . . Even before the late Spring and the flood, the agricultural sector had not been expected to show as much strength this year as it did last . . . and now, forecasts may have to be reviewed again.

We also remain very concerned about the impact of national policies in our province. Unfortunately, relatively little federal-provincial economic and fiscal policy consultation has taken place in recent months because of the political situation nationally. Following what was widely recognized as an inadequate federal budget last November . . . and a relatively unproductive national conference on

the economy later the same month . . . another budget was expected this Spring . . . but it did not materialize . . . and now there probably can't be a new budget until late Summer or early Fall. Obviously, this hiatus has played a large part in the uncertainty now being expressed by most forecasters. . . . But . . . that period should soon end . . . with the federal election.

Despite clear commitments and a great deal of rhetoric, the federal government has failed to take effective steps to bring its spending under control and to reduce its deficit. There is little doubt that a significant portion of the inflationary pressures which are continuing in this country are attributable directly to its inability or unwillingness to implement effective financial management. **The Report of the Royal Commission on Financial Management and Accountability** . . . the Lambert Commission Report . . . made that very clear when it was released in March. For those in the House who may not have read it, I recommend it highly. Its conclusions and its proposals have relevance not only for the federal government, but also for the entire public sector.

There are a great many passages in the Report which deserve repeating, but I only have time to quote one:

> *"When we reject unemployment, as we all do . . . then we must ask ourselves unflinchingly — what is the cause of high unemployment?* ***Quite simply and unequivocally it is caused by paying ourselves more than the value of what we produce. . . . It is an absolute fact of life which no government, be it left or right, can alter. . . .*** *We used to think that you could just spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you in all candour that* ***that option no longer exists*** *and that insofar as it ever did exist, it worked by injecting inflation into the economy. And each time that happened the average level of unemployment has risen . . and each time we did this the twin evils of unemployment and inflation have hit hardest those least able to stand them — our own people, the poor, the old and the sick."*

Probably several Members will recognize that statement. It was made by the former Prime Minister of Great Britain, James Callaghan, in 1976. Unfortunately, perhaps, for him, he learned the lesson too late. For our friends opposite . . . it is also too late . . . to put the lesson to use . . . but it is never to late to learn. . . .

The decline in the Canadian dollar and the concurrent rise in interest rates over the last year reflected many of the fundamental

problems outlined in the Lambert Report. While the dollar has moved upward somewhat in recent weeks, and while there has been speculation that the Bank of Canada may reduce its lending rate from its present record level . . . there is little doubt that both will have played an important part in influencing the final statistics for 1979.

The fall-off in the value of our dollar has provided one virtue out of the bad management of our economy over the years . . . and that is by helping our competitive position. On the other hand, the increase in cost of interest has acted to reduce or defer potential investment . . . particularly, we believe, in provinces such as ours where small businesses predominate. And, of course, interest rates and the dollar have continued to fuel inflation and added cost pressures which could undermine the competitive gains of the last year or so.

We believe that the federal government has paid far too little attention, in both its fiscal and monetary policy decisions, to the differing regional and provincial effects such decisions can have. These concerns have been an important topic at the last two First Ministers' Conferences on the Economy and at the most recent Western Premiers' Conference, where it was agreed that steps should be taken to ensure regular provincial input in monetary policy formulation. Meetings with the Governor of the Bank of Canada will be held in the near future to consider various options for improved consultation. The western provinces have also agreed to work more closely together in preparing overall development strategy proposals for consideration by the next federal government.

Despite our concerns about the negative effects national policies can have on our economy, we acknowledge the willingness of the Government of Canada to provide financial assistance, on a cost-sharing basis, for provincial economic expansion. While our Government has expressed the view that more flexible arrangements would be preferable, we have entered into important new agreements with the Department of Regional Economic Expansion in the fields of industrial development, agriculture and tourism. These agreements, coupled with the existing Northlands Agreement and related rural infrastructure programming, constitute a comprehensive set of initiatives designed to stimulate several of the most important sectors of our economy.

These programs are being administered through a reorganized and streamlined governmental structure . . . including the new Department of Economic Development . . . and are being coordinated through the Department of Finance, the Cabinet Committee on Federal-Provincial Financial Arrangements, and, ultimately, through

the new Economic Development Committee of Cabinet, chaired by the First Minister.

We also expect tangible economic gains from our current efforts to reduce regulatory burdens on the private sector. This activity is still in its initial stages, and is being carried on in cooperation with the federal government and the other provinces . . . in conjunction with the special Economic Council review proposed by the Premier of Manitoba at the First Ministers' Conference in February, 1978. While the process of reducing regulations . . . and even controlling their spread . . . is a difficult one, the potential benefits to the economy are immense . . . and this initiative is one to which we intend to devote increasing time and staff resources in the coming months.

Our overall outlook for the Manitoba economy for the balance of this year is for continuing moderate growth. . . . Improvement should be reflected in several key sectors, including manufacturing, and we are encouraged by forecasts which indicate that a reasonably strong rate of employment growth is likely to be sustained this year.

We recognize and have acknowledged that the substantially-reduced scale of capital expenditures for Hydro has had . . . and is having . . . some temporary dampening effect on the economy. But . . . with current overcapacity . . . the maintenance of earlier levels of activity simply could not be justified on <u>any</u> grounds . . . and as is well known, the previous government had made no effort to plan for an orderly phase-down of construction. As a result, the increasing evidence of recovery in the private sector is extremely important. . . .

In these circumstances, we are firmly convinced that it is appropriate . . . and, indeed, essential . . . for our Government to maintain the basic fiscal stance we adopted last year.

YEAR-END POSITION - 1978/79

Our last financial report for the 1978/79 fiscal year . . . the third quarter statement covering the period to the end of December, 1978 . . . indicated a slight improvement in the projected year-end position relative to earlier forecasts.

I am pleased to report tonight that the improvement has been significantly **<u>greater</u>** than was anticipated with three months to go before the end of the year.

According to preliminary, unaudited figures from my Department . . . figures which are not completely firm in some cases . . . it appears that the deficit in the year just past . . . including expenditures based

on capital authority carried forward from previous years . . . was approximately $83 million. This total is some $47 million lower than the $129.8 million projected in the third quarter financial statement.

Even more significant, it is $108 million less than the $191 million year-end deficit recorded for the 1977/78 fiscal year (which was adjusted downward from the $214 million it would have been on the traditional basis used by the former government) . . . a reduction in the deficit of 57% . . . or more than half . . . in twelve months.

About one third of the improvement in the deficit in the last three months of the fiscal year was attributable to reduced expenditure growth, and about two thirds to improved revenues, both from our own tax sources and from adjustments in federal transfers . . . some of which were not confirmed until the last quarter.

Total expenditures for the year were some $17 million lower than projected at the end of the third quarter, while revenues increased about $30 million. About $10 million of this improvement resulted from mining revenues received late in the year.

Earlier estimates made it clear that Manitoba's rate of spending growth in 1978/79 would be **the lowest of any senior government in Canada.** The year-end figures provide confirmation.

There was virtually "**zero growth**" in our expenditures between 1977/78 and 1978/79 . . . **a remarkable achievement, we believe, and an absolutely necessary one in view of the fundamental importance of bringing the "bottom line" down to a manageable size.**

Further details on 1978/79 expenditures and revenues will be made available when my Department issues its preliminary unaudited year-end statement, probably in about a month's time.

However, I can advise Members that the 1978/79 figures include approximately $19 million in expenditures based on capital authority carried forward from previous fiscal years. Last year at this time, it was suggested by Members opposite that these expenditures would increase the deficit estimated in my Budget . . . perhaps substantially. I think the final results speak for themselves. And . . . capital authority which was unused at the end of last year is to be cancelled by Order-in-Council. As I indicated some weeks ago, when tabling the Main Estimates for the current fiscal year, the 1979/80 figures represent, in effect, a "zero-base" approach insofar as capital authority is concerned. Authority needed this year has to be voted this year . . . another innovation designed to enhance accountability.

MAIN ESTIMATES OF EXPENDITURE - 1979/80

The Main Expenditure Estimates for the current year, which I tabled early in this Session, were 5.56% higher than the estimates for 1978/79.

Depending on flood costs and other factors, the increase in "actual" spending between the two years could be somewhat higher than this percentage. The 1979/80 Main Estimates did not, of course, include provision for supplementary estimates and special warrants, or for lapsing. I note that the federal government, in its estimates, provides some allowance for both factors in establishing its annual targets. While we are not in the habit of looking to the federal government for accounting or financial management advice, this may be one practice which warrants consideration for adoption in Manitoba at some time in the future.

Generally, however, I think it is fair to say that the federal government could learn a great deal by observing the improved management systems we are introducing here:

- our new Treasury Board system is fully operational . . .
- individual Ministries are once again exercising the planning and management responsibilities which they were created to fulfill . . . and are being held accountable for the results . . .
- important new accounting and other financial management procedures are being introduced in amendments to the Financial Administration Act now before the House, many of which are in line with recommendations of the Lambert Royal Commission and of the Canadian Institute of Chartered Accountants, and
- our stepped-up financial reporting system is working well . . . and providing the people of Manitoba with far more complete and timely information on our budgetary position than has ever been available before in this Province.

We feel these measures are essential steps toward our basic objectives of greater financial responsibility and accountability. Their effectiveness is already evident in the Estimates which are now before the House, and in the year-end figures for 1978/79 which I outlined earlier.

In an appendix to this Address, Members will find some interesting tables showing the trend in government expenditures in this Province in recent years. I suggest they show what can be achieved with **responsible** management . . . in a period as short as eighteen months.

Last year . . . all eleven senior governments in Canada made a formal commitment to hold expenditure growth rates at levels lower than the rate of growth of Gross National or Gross Provincial Product . . . to reduce the public sector's demands on the economy . . . and to leave more room for expansion of the productive private sector. . . . **In Manitoba, it is clear that this commitment is being met.**

In fact, we have been able to reduce the provincial government's share of the total output of our economy by a full 1.7 percentage points . . . from a record high of 18.9% in 1977, to 17.2% in 1978.

Having said this, however, I want to re-emphasize that the ultimate purpose of holding down overall expenditure growth is **not** to restrict essential services for the people of Manitoba. **Rather, it is to help build and maintain the economic base which, on a lasting basis, will make these services possible.**

The fact is that priority programs in the key fields of health, education and economic development are all being provided with increased tax support . . . in many cases, at a rate faster than the average growth rate of total provincial expenditures. For example, despite all the loose talk about cutbacks in health spending . . . there has, in fact, been an increase of $47.3 million in the estimates for the Department of Health and Community Services this year.

At the same time, of course, it is necessary to remember that the Main Estimates also provided for an increase of approximately $20 million in public debt charges for 1979/80 . . . an increase which resulted in part from foreign currency exchange rate fluctuations, and in part from the deficits of previous years. Inevitably, an increase of this magnitude . . . and prospects of further increases in the future . . . **must** limit flexibility . . . and necessitates the most rigorous possible evaluation of priorities and program options.

SUPPLEMENTARY ESTIMATES - 1979/80

Tax Credit Reform and the Manitoba Supplement for the Elderly

Later this year, our Government will be presenting a White Paper containing proposals for improving and rationalizing tax relief programs . . . and, in a broader way, other income support programs . . . which are either in effect or under consideration. Our objective in presenting this White Paper is to permit the proposals to be exposed to wide-ranging review and evaluation . . . and to ensure that comments and suggestions can be received from specific groups, as well as from the general public.

The Government is considering the possibility of convening a special session of the Legislature this Fall to enable Members to discuss and debate the White Paper proposals and to consider follow-up legislation where appropriate, along with supplementary supply if required.

For this reason, we are advising local governments that there will be no change in property tax assistance measures this Summer. Homeowners will continue to be eligible for up to $225 in rebates on their property tax bills for 1979 . . . and those homeowners who are pensioners will be entitled to claim up to an extra $100 to offset school taxes in excess of $375 for the year.

At the conclusion of my Address tonight, I will be tabling Supplementary Estimates providing for an amount of $1,650,000 to cover the cost of maintaining the Manitoba Supplement for the Elderly, on its current basis, for the balance of the year, if need be.

Flood Emergency and Compensation Costs

Last week the House approved separate supplementary estimates to provide for an additional $5 million for expenditures related to the current flood emergency, bringing to $5.3 million the authority available to cover flood-related costs. A partially-offsetting revenue addition of approximately $2.5 million from the federal government is also being assumed, and this will be shown in the revenue estimates.

The $5.3 million total is, of course, provisional at best. It is intended to cover immediate costs. . . . We recognize fully that it will almost certainly have to be augmented later.

With respect to the flood emergency itself . . . I want to state that our Government has been pleased by the assistance we have received from federal authorities. . . . The cooperation of municipal governments has also been excellent . . . and the attitude and support of all Members of the Legislature have been commendable.

Tribute should also be paid, in a formal way, to the former Premier of our province, the Honourable Duff Roblin, for his foresight and determination in proceeding with the Winnipeg Floodway, the Portage Diversion, the Shellmouth Dam and dyking systems protecting communities in the Red River Valley. The correctness of those decisions is now accepted . . . and indeed acclaimed . . . universally . . . as it should be. . . . Over the years, they have prevented hundreds of millions of dollars in damages . . . and the net benefit . . . the impact on the provincial economy . . . would be difficult, if not impossible, to calculate.

Most important of all, the citizens of our province . . . individuals and families . . . old and young . . . have demonstrated to themselves, and to other Canadians, that the traditional values of self-reliance . . . cooperation . . . community spirit . . . and hard work . . . together . . . to preserve and protect homes, farms, and businesses . . . are still alive and well in Manitoba. I am certain I speak for every Member of this House in saying that we all feel privileged to be able to represent those people who have pitched in on their own and done so much in this effort.

REVENUE ESTIMATES - 1979/80

At the end of my Address I will also be tabling Revenue Estimates for the 1979/80 fiscal year totalling $1,689,600,700.

I am pleased to announce that these Estimates include no provision for any increase in provincial taxes this year.

In fact, they allow for some selective direct reductions . . . and a major indirect reduction . . . as well as for an extension of the permanent tax cuts announced when we took office, and in our first Budget.

Last year, we estimated that the net saving from these tax reductions . . . including the temporary retail sales tax cut which was financed in part by the federal government . . . was approximately $83 million . . . or about $83 for every Manitoban.

In 1979/80, these changes, including:

- the 2-point reduction in the personal income tax rate;
- the expiry of the personal surtax at the end of 1978;
- the reduction of the corporation income tax rate and the increased corporate capital tax exemption for small businesses;
- the elimination of succession duties and gift taxes, and
- other changes, including elimination of "nuisance" taxes;

will save Manitobans $31 million on a net basis.

TAX REDUCTIONS

For 1979/80, we propose to supplement these reductions with additional relief measures.

Sales Tax

I am pleased to announce a number of selective sales tax reductions, effective at midnight tonight.

First . . . the exemption level for restaurant meals will be raised from \$2.99 to \$4.00;

Second . . . for farmers, tax will no longer be applicable to purchases of tractor-mounted snowblowers for farm use, or to granaries, other than multipurpose buildings;

Third . . . the exemption for used clothing and used furniture will be raised from \$25.00 to \$100.00, and for used footwear from \$5.00 to \$20.00;

Fourth . . . a full exemption will be provided for purchases of sand bags for flood control purposes;

Fifth . . . purchases of firefighting equipment by municipalities and Indian Bands will be exempt;

Sixth . . . the exemption for safety equipment will be extended to purchases by employers, and

Finally . . . the exemption for children's clothing will be extended to cover all clothing and footwear purchased for children up to and including age 14. The present general size exemption will continue unchanged, while purchasers of larger-sized clothing and footwear will be able to take advantage of the extended exemption by completing a very simple age declaration.

The estimated revenue loss from the extension of the children's clothing exemption is around \$1 million this year, while the restaurant meal exemption increase is expected to reduce revenues by \$800,000 annually. The remaining sales tax changes are expected to cost approximately \$250,000 a year.

In addition, we propose to refund, by Order-in-Council, any sales tax which may already have been paid on sand bags for flood-fighting purposes this Spring . . . an anomaly I only recently became aware of . . . and which never should have existed.

We also announce, by way of separate Order-in-Council, that wooden concrete forms in the construction industry are also being exempted from the tax.

Mr. Speaker, Members opposite had eight years to make these changes . . . and didn't make one.

Motive Fuel Taxation

To lessen paperwork and red-tape, we also propose to permit road builders and other users of motive fuel for off-highway equipment to purchase coloured fuel for those purposes at the reduced tax rate of 2.2¢ per litre. This measure will eliminate the present practice of having these persons originally pay the full rate of tax, and then apply for partial refunds.

The change will take effect July 1 this year, and should be of particular assistance to the construction industry. Revenues will be unaffected by this deregulation measure.

Resource Taxation

During the last election campaign, our Party made a firm commitment to respond to concerns expressed by northern residents and by the mining industry about the detrimental impact on mining exploration and development in Manitoba of the incremental royalty rates implemented by the previous administration in 1975 . . . and to concerns about the subsequent diminution in the contribution which the mining industry is capable of making to employment opportunities and incomes in this province.

Since taking office, our Government has carried out a complete review of the metallic minerals royalty legislation. We have also participated in a joint federal-provincial study of the entire structure of resource taxes and royalties in Canada.

Both our own internal review and the federal-provincial study confirmed that the general tax and royalty levels facing the mining industry more than doubled between 1971 and 1975 . . . and, that the Manitoba metallic royalty regime, in combination with national income tax changes since 1971, resulted in the industry in this province facing potential total taxation and royalty burdens which are higher than anywhere else in the country.

Our concern was aggravated further by the fact that these increases in taxation were accompanied by:

— an increase in the proportion of mineral investment by Canadian-based firms in mineral exporting countries with which Canada competes . . .

— declines in Canadian exploration, research and development expenditures in the mining industry, and . . .

— an average decline in employment in mining, smelting and refining of 0.6% over the 1971-1977 period, compared with an average annual growth rate of 1.6% over the preceding decade.

While taxation was not the only factor accounting for these declines, it was, in our view, a major contributor. The very fact that Manitoba operators were faced with the prospect of almost 75¢ of each additional dollar earned by the industry accruing to the public sector was, and continues to be, a major impediment to new development and new jobs.

In light of all these factors, and in order to restore the Manitoba system to a competitive position in Canada, my colleague, the Minister

of Mines, Natural Resources and the Environment will shortly be introducing legislation to reform the metallic minerals royalty legislation. In addition to proposing a series of housekeeping and non-royalty measures, the bill will provide for major reforms to the incremental royalty system . . . reforms geared toward assuring a realistic royalty system . . . fair to the industry and people of our Province . . . a system which encourages development in Manitoba, instead of inhibiting it.

One of the most important changes to be proposed is the replacement of the present incremental royalty rates of 15% and 35% with a single rate of 18%. This change will reduce the maximum potential income taxation and resource charges facing the industry from over 73% under the present system, to around 56%.

There are several reasons for implementing a single rate system:

— high marginal tax rates such as occurred under the incremental rates system have been identified as a serious impediment to new mining investment;

— dual rate systems discriminate against companies with fluctuating incomes;

— high marginal tax rates have led to the perception of Canada as a high-tax country, and, as noted earlier, have resulted in reduced investment from abroad as well as from domestic sources, and

— quite simply . . . dual rate systems of the type in effect in this province are overly . . . and unnecessarily . . . bureaucratic.

The reform legislation will also include a major incentive for investment in new facilities, or expansion and improvement of existing facilities. Specifically, it is proposed that companies be eligible for an investment credit equal to 5% of such new investments, provided that the credit does not reduce royalties otherwise payable by more than one-half. In our view, this type of incentive affords maximum protection for provincial royalty revenues, while at the same time providing the industry with significant encouragement to undertake new activity in Manitoba.

Improvements will be proposed as well for the existing exploration deduction and the processing allowance. This latter change will provide a better environment for attracting secondary processing activity to our province.

In addition, to assist small quarry operators and to eliminate overlapping and duplicative administration . . . and, in some cases, double taxation . . . we also propose to terminate the taxation of industrial minerals under the Mining Royalty and Tax Act.

As well, in line with the changes to Crown oil royalties implemented on January 1st of this year, changes to the Mineral Taxation

Act will be proposed to equate returns from production on freehold land with the returns from Crown land and provide similar incentives for increased exploration efforts.

Members will be interested to note that our Revenue Estimates contain an amount of $15 million for the Metallic Minerals Tax in 1979/80 — an increase of $12 million over the $3 million originally estimated for last year. As I noted earlier, this substantial and important increase reflects the improving health of the mining sector.

We are confident that . . . provided with a public policy environment which recognizes the huge risks involved in resource investment . . . the mining industry will once again expand in the better competitive atmosphere in our province and increase its contribution to overall development.

Our Government has also reviewed the tax situation facing individual freehold owners of oil rights in Manitoba, and has concluded that the federal government's income tax "resource allowance" of 25% provides insufficient recognition of the actual provincial oil charges paid by these individual Manitobans. As a result, these people find themselves paying income tax on money they simply do not receive. To alleviate this double taxation . . . which would otherwise persist . . . our Government intends to rebate to these individuals any net increase in Manitoba personal income taxes payable after both non-deductibility and the resource allowance are taken into account. This measure . . . which is expected to cost under $50,000 annually . . . will be effective for 1979 and subsequent taxation years. I might add that this measure parallels a rebate plan which was in effect for the 1975 tax year.

Summary of Tax Reductions

The tax cuts our Government has implemented within the last eighteen months . . . coupled with those announced tonight . . . represent the first full step toward restitution of a competitive tax system in this Province.

We have now introduced important reductions in personal taxes . . . both income and sales . . . in business taxes . . . in resource taxes . . . and in nuisance taxes and others which were impeding initiative, investment, and growth in Manitoba.

But . . . a great deal more remains to be done before we can point to a tax system which provides both equity within Manitoba . . . and equity between taxpayers in this Province and those elsewhere in Canada.

While we would have liked to provide further reductions this year, we were constrained by a number of factors . . . including, of course, our objective of gradually reducing the deficit and . . . reductions in certain federal transfers. We have also made an important commitment in another field, which I will discuss shortly, affecting all taxpayers in Manitoba. . . .

We calculate that the changes in federal transfers announced by the Government of Canada last Fall as part of its so-called "restraint" exercise reduced our potential revenue in 1979/80 by approximately $31 million. The overall growth in federal transfers in 1979/80 is now estimated to be about the same as the overall rate of increase in our revenues.

I want to emphasize this fact to those who have argued that because one component of these transfers, the cash portion of the Established Programs Financing Arrangements, has grown quite quickly . . . the Government should, blindly, try to match that rate of growth in particular program areas with additional tax dollars, without regard for the rate of growth of other federal payments . . . and without regard for our overall budget . . . and the bottom line. To have followed that kind of misguided advice . . . advice apparently based on a complete misreading of the financing arrangements involved . . . would almost certainly have had adverse consequences for our deficit . . . for our ability to hold down taxes . . . and for other essential government programs.

BUDGETARY SUMMARY

The Supplementary Estimates for flood-related costs and extension of the Supplement for the Elderly will raise estimated expenditures by $6.7 million to a total of $1,780,863,100. With total revenues estimated at $1,689,600,700, the resulting budgetary deficit on this basis would amount to $91.3 million. Further on in my Address, however, I will be announcing a major initiative which will increase this amount significantly.

Although the $91.3 million estimate is higher than the preliminary year-end figure of $83 million for 1978/79, it is some $59.2 million or 39% lower than the combined $120.1 million deficit estimate for last year, plus the $30.4 million capital carryforward.

I might add as well that on the old current account basis, the Budget is now balanced. . . . In fact, on the old basis of accounting, we would have generated a small "surplus" in 1978/79. However, as we have said many times, it is our view . . . and, of course, the view of the

Provincial Auditor . . . that the distinctions which used to be made between current and budgetary capital were artificial and meaningless. They created a false impression and obscured the substantial real deficit being incurred for "dead-weight" capital expenditures.

As I indicated earlier in my Address, our Government's objective is to work towards eradication of the **combined** current and capital deficit, as and when economic conditions permit. A balanced budget on a combined basis . . . and even a modest surplus, to provide flexibility for special initiatives and to reduce our debt load . . . is not an unrealistic possibility . . . and **it remains as our objective . . . and that of all reasonable governments.** Although strict balance may well be inappropriate on a continuing, year-after-year basis, **it is essential over the medium term . . . to ensure confidence . . . to protect our economic base . . . and to maintain the programs and services which we are responsible for providing to the people of this province.**

NON-BUDGETARY CAPITAL FINANCING

General Borrowing Policy

In recent weeks, a number of questions have been raised with respect to the policy of the Provincial Government relative to offshore borrowing. While our policy is straightforward, a great deal of misinformation has arisen to obscure it, so I would now like to outline the basic guidelines for the Members of this Assembly . . . and for the record.

When interest rates are favourable, our first preference is to borrow on the Canadian market. Our second preference is the United States . . . and we will only borrow outside North America when Canadian and U.S. rates are prohibitive.

During consideration of Finance Estimates in Committee of Supply, I indicated that changes in exchange rates had meant a dramatic increase in the potential costs of repayment of our foreign debt obligations. While the figures have improved slightly in recent weeks, they still represent an enormous additional burden for Manitoba residents on top of one of the highest per capita debt totals in the country.

In keeping with our commitment to financial accountability, new accounting procedures will ensure that the people of this province will have accurate and up-to-date information on the extent of this added liability.

I might add, at this point, that the budgetary capital totals included in the Estimates do not reflect the full capital spending program for both health and public school facilities, since the boards involved borrow on a long-term basis, and are reimbursed by the Province for annual financing costs through the Manitoba Health Services Commission and the Public Schools Finance Board. The health capital program provides for about $26 million to be spent this year for such projects as additional personal care home beds and completion expenditures for the Seven Oaks Hospital, as well as the new Cadham Provincial Laboratory and the Cancer Treatment and Research Foundation. For public schools, planned capital expenditures will amount to around $24.7 million.

Financing Crown Agencies

At the conclusion of my Address tonight, I will table "Schedule A" capital authority requirements for Crown agencies totalling some $205.5 million. This total represents a decrease of $87.4 million or 30% from the authority requested for 1978/79.

As usual, the largest requirement is for Manitoba Hydro . . . some $118.7 million, compared to $205.6 million for 1978/79. The request for the Telephone System is $35.3 million, down $11.7 million from the amount authorized for last year.

Borrowing Requirements

In total, we estimate our combined budgetary and non-budgetary borrowing requirements at approximately $350 million. Off-market sources such as the Canada Pension Plan should provide about $100 million of this amount, while the remainder, about $250 million, will be obtained from public market sources.

ENERGY RATE STABILIZATION

Now, I would like to deal with **the most important initiative of this Budget** . . . with the matter of energy cost in Manitoba . . . and, more specifically, with **the stabilization of electrical energy rates.**

Hydro-electric power in Manitoba is one of this province's greatest heritages. Unlike the exhaustible fossil fuels, which are now producing great wealth in our two neighbouring prairie provinces, our hydro resource is **renewable.** . . . Even though we cannot expect our resource to provide revenue on a scale comparable to those of oil and gas in other provinces . . . we should, with good management, be able to expect substantial benefits from that resource, including:

- the provision of below-average electrical costs for Manitobans, and
- the potential benefits of revenue earnings from exports, which can accrue to our population.

Since the day this Government came to office some eighteen months ago, we have pursued an aggressive role . . . directed to building a more secure and more rational position for development of our hydro resource.

We have, first of all, initiated the study of a western power grid . . . a potential hook-up in western Canada which, if proven feasible . . . as we believe it can be . . . would allow the logical interconnection of electric utilities . . . to integrate, at least partially, and to optimize the consumption of renewable and non-renewable resources for the economic benefit of all provinces and regions involved . . . and, simultaneously, to serve the conservation ethic which should become increasingly important to all of us in Canada.

Secondly, we have pushed ahead to examine more fully and completely the various options for interconnections with our southern neighbours in the United States . . . with the objective of achieving the diversity of north-south exchanges, and also the possibility of firm power export contracts for a limited period of time . . . until we are likely to require the power for our own purposes in Manitoba and Canada. This would enable us to embark, on a sound footing, to harness more of our renewable water resources and advance the construction of the hydro plants.

This dual-approach pursuit has been our strategy . . . and we are convinced that the prospects for success are good . . . but, the examination and negotiations are, by their basic nature, both complex and time-consuming.

We have established a negotiating committee comprised of Manitoba Hydro, Provincial Government and external professional people, headed by legal counsel . . . to carry out the U.S. portion of the negotiations. This committee, formally referred to as the Extra-Provincial Negotiating Committee, provides the utility with external backup in negotiations . . . advises Government through the Minister of Finance . . . and coordinates the preparation of letters of intent and agreements that the Government may wish to consider with utilities and other agencies in the U.S.

The ultimate objective is, of course, to secure . . . within the framework of a rational Canadian energy policy . . . the protection of

the Canadian public interest . . . and the maximum financial benefits to the citizens of Manitoba.

With this background . . . I would now like to outline important, positive steps that we intend to take to provide benefits directly to the rate-payers, and to enhance the base for further economic expansion in our province.

Manitoba Hydro has requested . . . and received . . . a number of rate increases over the past few years. . . . The first general rate increase in the history of Hydro was put into effect in July, 1968. Since that time the following general rate increases have taken place:

Effective April 1, 1974 . . rates increased by an average of 20.6%
on April 15, 1975 . . . . . .rates increased by an average of 19.2%
on April 1, 1976 . . . . . . .rates increased by an average of 19.8%
on March 17, 1977 . . . . .rates increased by an average of 15.0%
on February 1, 1978 . . .rates increased by an average of 14.9%
and on February 1, 1979 . . .rates increased by an average of 14.5%

On a compound basis, **these increases total in excess of a staggering 150% in five years** — a rate which, applied to a basic and essential utility, and impacting on just about every individual and household in the province, is clearly **unacceptable.**

The increases were brought about primarily by development strategies initiated by the previous administration, resulting in a magnitude of capital investment that has now, as predicted, established a debt burden which exceeds the traditional rate base's ability to service. **Nearly one-half the rate-payer's Hydro bill now goes toward paying the interest on the debt of that capital investment.** The size of the debt, and the manner in which it was increased on component projects, has been one of the principal subjects of the Commission of Inquiry on Hydro.

To add insult to injury, the rate-payer has had to bear the brunt of the debt service costs having to be paid mostly in foreign currencies. This has caused a further burden recently because of the weakness of the Canadian dollar in relation to the U.S. dollar, Swiss Franc, Japanese Yen and German Mark, currencies in which the bulk of hydro's debt must be repaid. When these foreign debts were taken on by Manitoba Hydro . . . **or, more accurately, were given to Hydro by the Manitoba Government** — since the Province in all cases negotiated the loans . . . the interest rates looked attractive, but now there will be a very substantial negative impact when the debt becomes due if the relative strengths of the currencies do not improve drastically in our

favour. And . . . although the total debt repayment is spread over a period of years . . . the first of the loans must be faced within months.

To illustrate this point more clearly, if the present value of the Canadian dollar were not to change in relation to the other currencies from now until the end of all loan repayments, the utility would have to pay back, on the capital portion alone, about **$350 million more than it had borrowed** . . . to say nothing of the increased cost of interest. The first of these repayments could occur in June of 1979 in respect of a 100 million Swiss Franc loan. When the loan was made in 1975, it converted to $40.8 million Canadian, but now the repayment of the loan will require $68.4 million Canadian. The $27.6 million loss must normally be assumed as an expense by the utility and could have a further direct impact on hydro rates. And . . . although the currencies may shift back in the future to our favour, they may just as easily go the other direction . . . depending on changes that take place in world economies, so that foreign debt will likely continue to have a significant effect on the utility . . . and that effect should be recognized and dealt with.

The Task Force on Government Organization and Economy recommended that the Provincial Treasury lend money to its utilities in Canadian dollars at prevailing Canadian rates . . . and that the Government . . . not the utilities . . . take all risks in foreign borrowings. We agree with that recommendation . . . and it is our intention to take that action in the case of Manitoba Hydro, which has the greatest exposure to currency shifts. This action will no doubt be costly to the Treasury in the short run. The long term impact will depend on future currency fluctuations.

Taking into account all these considerations:

— the encouraging progress of extra provincial negotiations and export sales;

— the need to stabilize costs of financial planning in the electric utility;

— the rescheduling and trimming down of capital costs of hydro development;

— the recommendations of the Task Force, and

— most importantly, the urgency of protecting the rate-payers and of building a solid base for growth and opportunity in Manitoba. . .

we have arrived at what I think is one of the Government's most significant undertakings and redirections in relation to its largest public utility.

It is our intention to guarantee a 5-year fixed power rate for all Manitoba consumers other than bulk purchasers and those on other, separate contracts.

The rates, therefore, will stay as they are in 1979 for five fiscal years, including this one.

The Government will lift all foreign debt from Hydro retroactive to April 1, 1979 . . . and recalculate it on the basis of Canadian debt at various interest rates corresponding to the rates in effect on the dates on which the foreign issues were taken out. I will be introducing necessary legislation for this purpose. **These moves alone will, we believe, provide the utility with sufficient elbow room not only to hold its rates fixed for this period, but also to rebuild its reserves to a more appropriate level.**

But, come what may, the Government will guarantee the utility in this undertaking.

The Supplementary Estimates will contain provision of $31.3 million to finance this important initiative. This will bring the estimated excess of expenditures over revenues for the 1979/80 fiscal year to $122.6 million.

It should be noted, Mr. Speaker, that Winnipeg Hydro customers will also benefit directly from this action.

By guaranteeing that there will be no rate increases for a five year period, and by lifting the burden of foreign exchange fluctuations from Hydro, the Government is radically altering the traditional relationship between Hydro and the Province. This relationship must be reviewed in light of changing times and changing markets . . . and as well the changing world energy picture.

The Commission of Inquiry is in the final stages of its review of the present and future development of Manitoba Hydro . . . and the report which is expected later this year may well be instructive for other future policy determinations affecting the relationship between Hydro and Government.

At the present time, the net debt of the utility is about $2.3 billion, and represents nearly 60% of the total outstanding direct and guaranteed debt of the Province and its agencies. . . . The sheer size of the debt, alone, dictates the Government's presence in monitoring the debt management.

The fixing of domestic hydro rates for a 5-year period will most surely return Manitoba to having about the lowest electric power rates

in North America . . . a position we once enjoyed, but lost over the past few years. It is an undertaking that runs contrary to what is happening to the prices of other energy forms such as oil and natural gas . . . and, if current rates of inflation continue, one could expect electrical energy to become remarkably economic in comparison to those other energy sources.

The undertaking which I have outlined will provide immediate benefits to every Manitoban in the form of an assured low-cost electrical energy supply . . . the basic objective in setting up a provincial hydro utility in the first place. . . .

Mr. Speaker . . . for individual Hydro customers . . . homeowner and renter alike . . . and particularly those with moderate and fixed incomes, such as pensioners . . . the impact of these changes will be extremely beneficial. There is no doubt that the measure is progressive in its impact . . . and will represent a positive factor in reducing inflationary pressures.

In fact . . . it will be an inflation fighter of the first order.

This measure will also provide a further major incentive to economic development. . . . It will enhance our competitiveness . . . and provide significant additional stimulation for the creation of more job opportunities in Manitoba.

Our hydro resources represent one of the most important economic advantages our Province enjoys. . . .

To ensure that advantage is realized . . . our Government . . . unlike the previous administration . . . intends to put the rate-payer and the taxpayer first . . . and to support the utility in meeting its objective of service to the customer.

With the actions I have announced tonight . . . the citizens of Manitoba can once again be assured that the availability of abundant, renewable hydro power . . . at reasonable and predictable cost . . . will be a key factor in the expansion of this province throughout the new decade . . . and into the next century.

CONCLUSION

Mr. Speaker . . . tonight's Budget will continue the rebuilding process which is now underway in Manitoba.

- It confirms a reduction in the deficit burden inherited from our predecessors . . . and reaffirms our goal of a balanced budget.
- It continues the process of tax reduction and realignment

started last year . . . a process which will mean $116 million in total tax relief for the citizens of this province by the end of our second year in office.

- It guarantees that our vitally-important mining tax structure will be competitive once again . . . without eroding revenues, and
- It freezes Hydro rates at 1979 levels for five years — a measure which, along with the others announced tonight, will benefit every Manitoban.

The signs of renewed strength in our economic base are already evident . . . but we still face difficult challenges in the next few years . . . and throughout the 1980's.

This Budget represents an important step in meeting those challenges.

The objectives it sets out are realistic and attainable . . . and reflect the aspirations of the vast majority of Manitobans.

We continue to believe that responsible financial management in the public sector throughout Canada is the key to sustained economic development . . . to reduced inflationary pressures . . . and to continuing improvement in job creation.

Our Government has proved its commitment to this principle . . . and we believe others should follow our lead.

Based on the accomplishments of the last eighteen months, we believe the people of Manitoba can look forward to a decade of recovery and stability . . . a decade of opportunity and of promise. . . .

With this Budget, we have completed the first transitional stage.

The rebuilding job is working.

And . . . most important of all . . . confidence in our future is returning to Manitoba.

SUPPLEMENTARY BUDGETARY INFORMATION

SUPPLEMENTARY BUDGETARY INFORMATION

APPENDIX A — FINANCIAL STATISTICS

— Government of Manitoba Total Expenditures as a Share of Gross Provincial Product 1968/69 to 1978/79 41

— Growth in Provincial Expenditures: 1968/69 - 1978/79 42

— Government of Manitoba Total Expenditures 43

— Estimated Expenditures and Revenues - 1979/80 44

— 1979/80 Expenditure Estimates - Main and Supplementary 45

— 1979/80 Revenue Estimates 46

— 1979/80 Capital Authority Requirements for Self-Sustaining Programs 47

— Provincial Per Capita Debt Comparison - 1977 48

— Province of Manitoba Direct and Guaranteed Debt: By Purpose 49

— Province of Manitoba Statement of Valuation and Purpose of Bonds, Debentures and other Securities Outstanding as at March 31, 1979 50

APPENDIX B — ECONOMIC REVIEW AND STATISTICS

AND STATISTICS 51

APPENDIX C — RECENT MINISTERIAL STATEMENTS ON FISCAL AND ECONOMIC POLICY

Opening Statement by Premier Sterling Lyon — Federal-Provincial Conference of First Ministers on the Economy, Ottawa, November 27-29, 1978 71

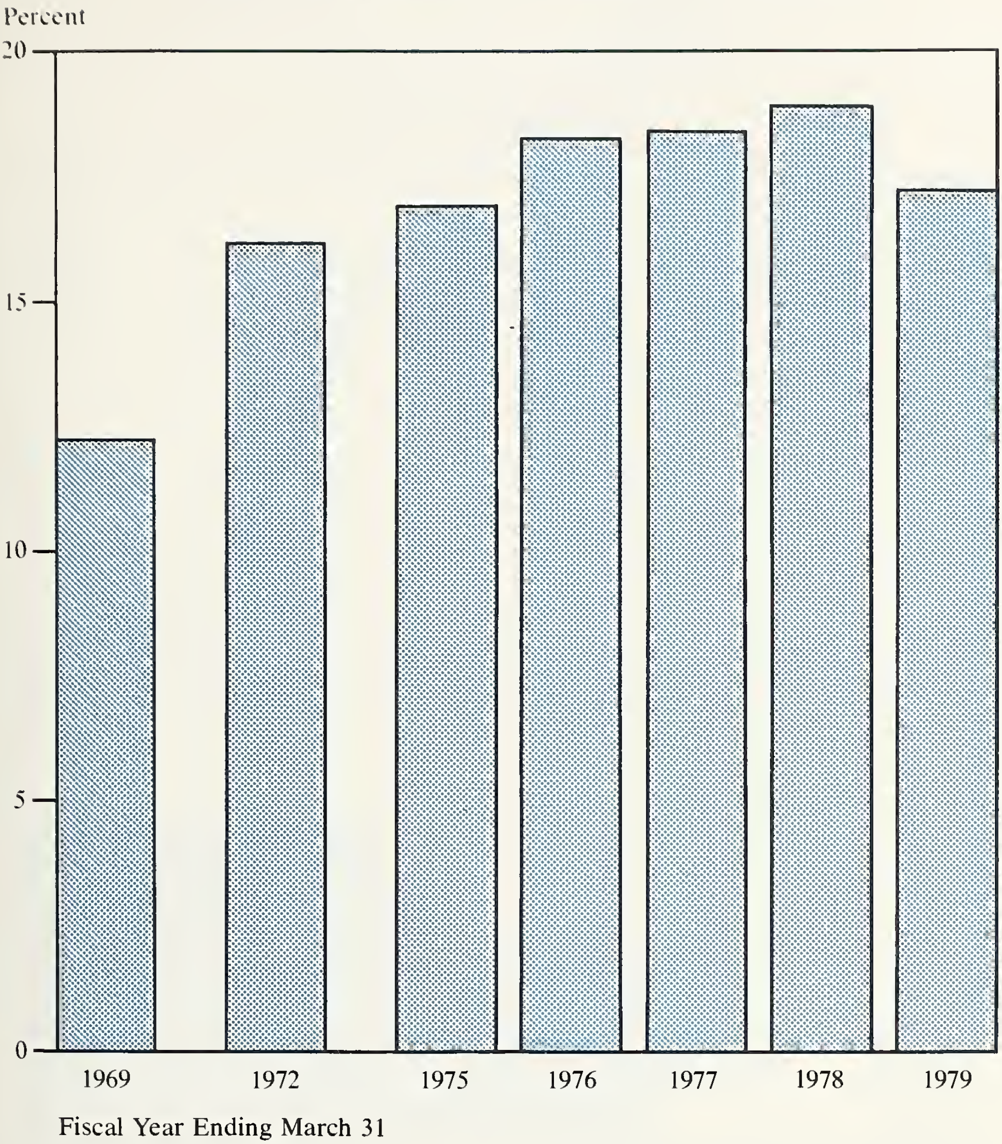
Notes for a Statement on Government Regulation by Premier Sterling Lyon 79

Notes for a Statement on Resource Taxation in Canada, Honourable Donald W. Craik, Minister of Finance — Federal-Provincial Conference of Ministers of Finance and Mines, Ottawa, November 3, 1978 83

Notes for a Statement on the Short-Term Economic and Fiscal Situation, Honourable Donald W. Craik, Minister of Finance — Federal-Provincial Conference of Ministers of Finance, Winnipeg, July 6, 1978 88

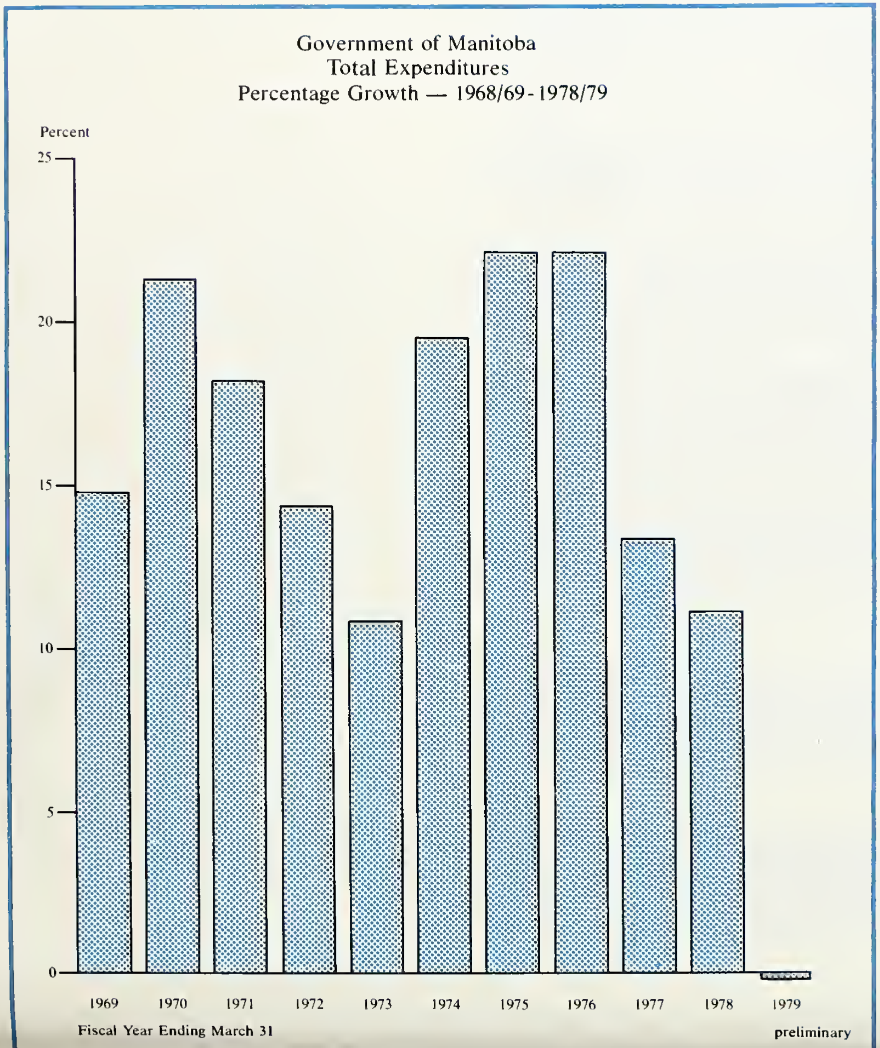
FINANCIAL STATISTICS

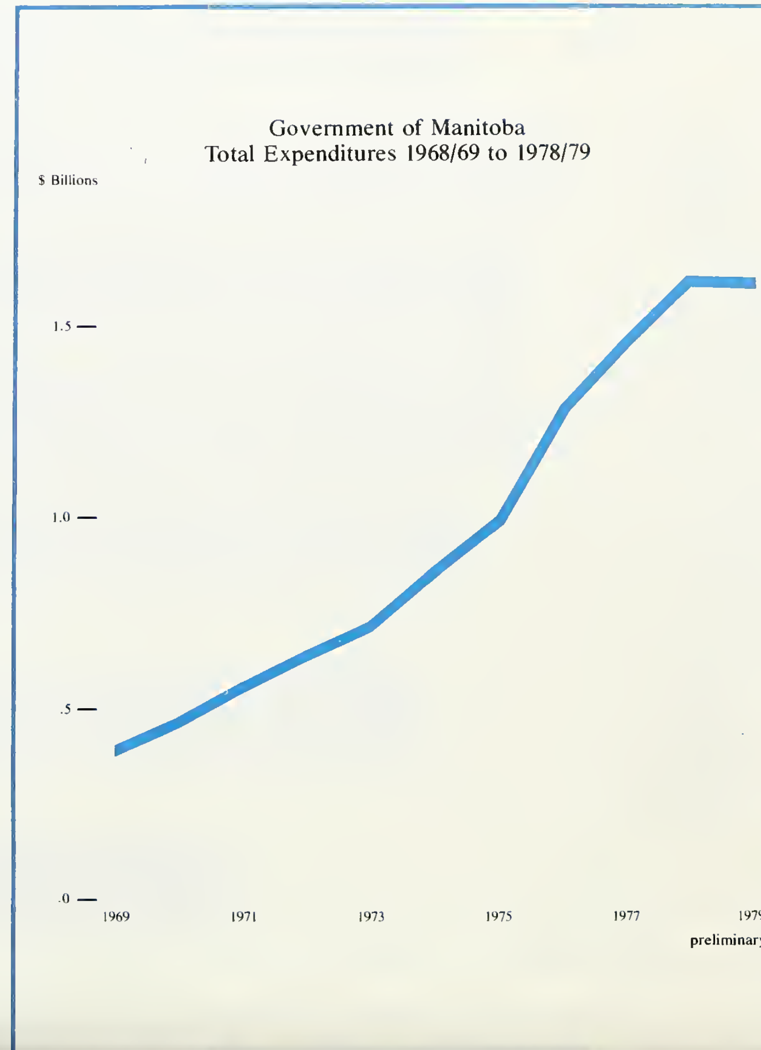
Government of Manitoba Total Expenditures as a Share of Gross Provincial Product 1968/69 to 1978/79



Fiscal Year	% Share
1968/69	12.2
1969/70	13.9
1970/71	15.6
1971/72	16.2
1972/73	16.3
1973/74	16.2
1974/75	16.9
1975/76	18.2
1976/77	18.4
1977/78	18.9
1978/79	17.2

Growth in Provincial Expenditures: 1968/69 - 1978/79





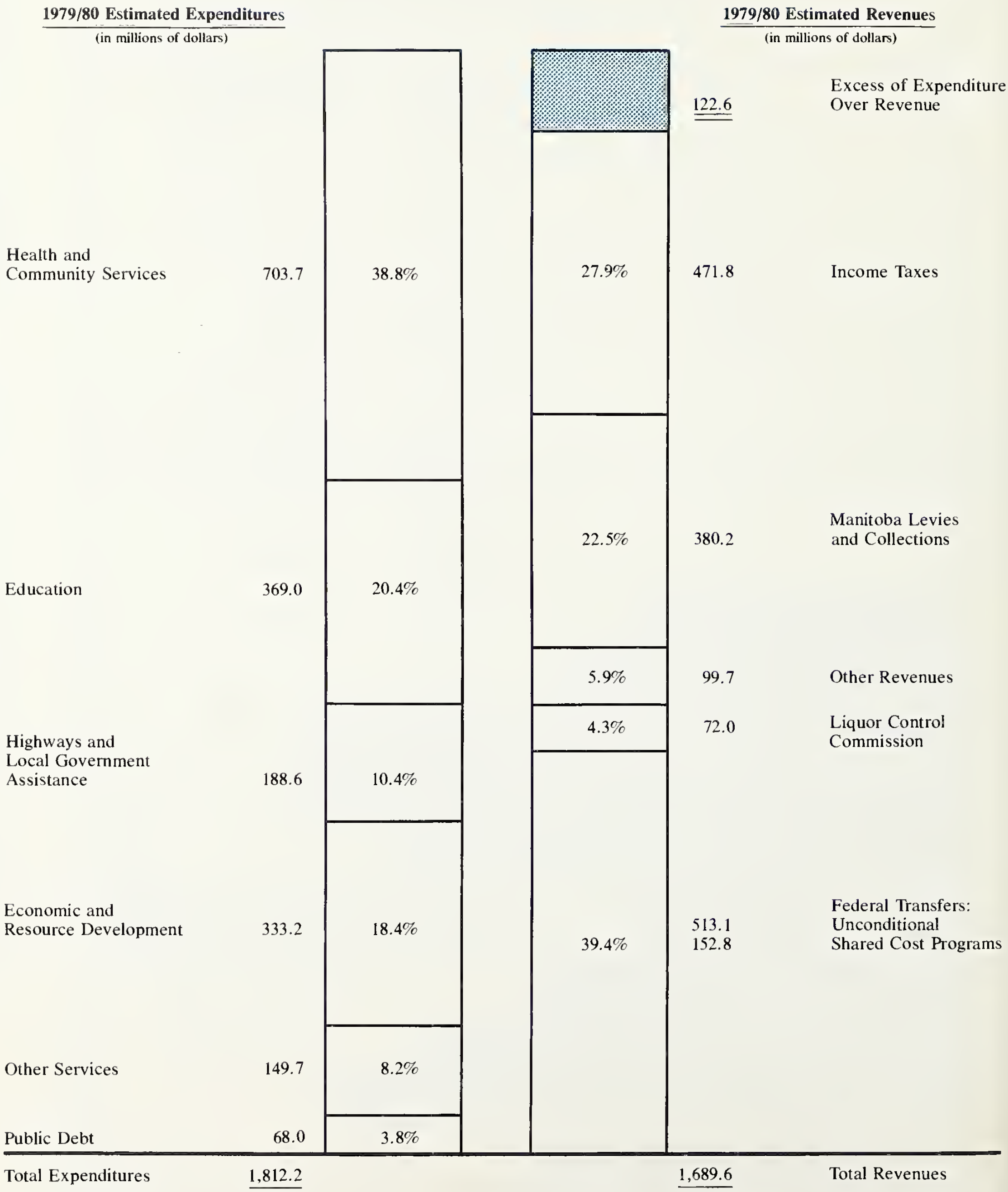
Government of Manitoba
Total Expenditures
Fiscal Years Ending March 31

	Expenditures(1) ($ 000's)	% Change from Previous Year
1968	$ 349,006	—
1969	400,824	14.8
1970	486,194	21.3
1971	574,538	18.2
1972	657,311	14.4
1973	728,599	10.8
1974	870,704	19.5
1975	1,064,142	22.1
1976	1,299,712	22.1
1977	1,472,082	13.3
1978	1,635,586	11.1
1979 Preliminary	1,632,000	(0.2)

(1) The expenditures shown include the gross expenditures related to the cost of living and property tax credit programs and the Manitoba Health Services Commission. They have also been adjusted to reflect the changes in the accounting system as reflected in the 1978/79 and 1979/80 Estimates. The most significant of these changes is the combining of all direct Government expenditures formerly referred to as current and Schedule B capital.

SOURCE: Province of Manitoba Public Accounts adjusted as stated in the note.

Estimated Expenditures and Revenues 1979/80



1979/80 Expenditure Estimates
Main and Supplementary

		1979/80 Estimate	% of Total
Health & Community Services		$ 703,650,400	38.8
Education		368,996,000	20.4
Highways & Local Government Assistance		188,637,300	10.4
Economic & Resource Development		333,231,900	18.4
• Agriculture	$ 28,842,000		
• Co-operative Development	706,400		
• Economic Development	31,842,900		
• Development Agencies	824,200		
• Finance (excluding Public Debt)	148,780,000		
• Labour & Manpower	18,622,900		
• Mines, Natural Resources & Environment	56,715,100		
• Northern Affairs	25,765,000		
• Tourism & Cultural Affairs	11,400,500		
• Canada-Manitoba Enabling Vote	9,732,900		
Other Services		149,666,500	8.2
• Legislation	$ 3,749,900		
• Executive Council	871,900		
• Attorney-General	35,123,600		
• Civil Service	14,563,300		
• Consumer & Corporate Affairs	3,919,000		
• Fitness, Recreation & Sport	1,811,600		
• Government Services	45,518,200		
• Flood Control & Emergency Expenditures	5,309,000		
• General Salary Increase	7,500,000		
• Hydro Rates Stabilization	31,300,000		
Public Debt		67,981,000	3.8
		$1,812,163,100	100.0

1979/80 Revenue Estimates

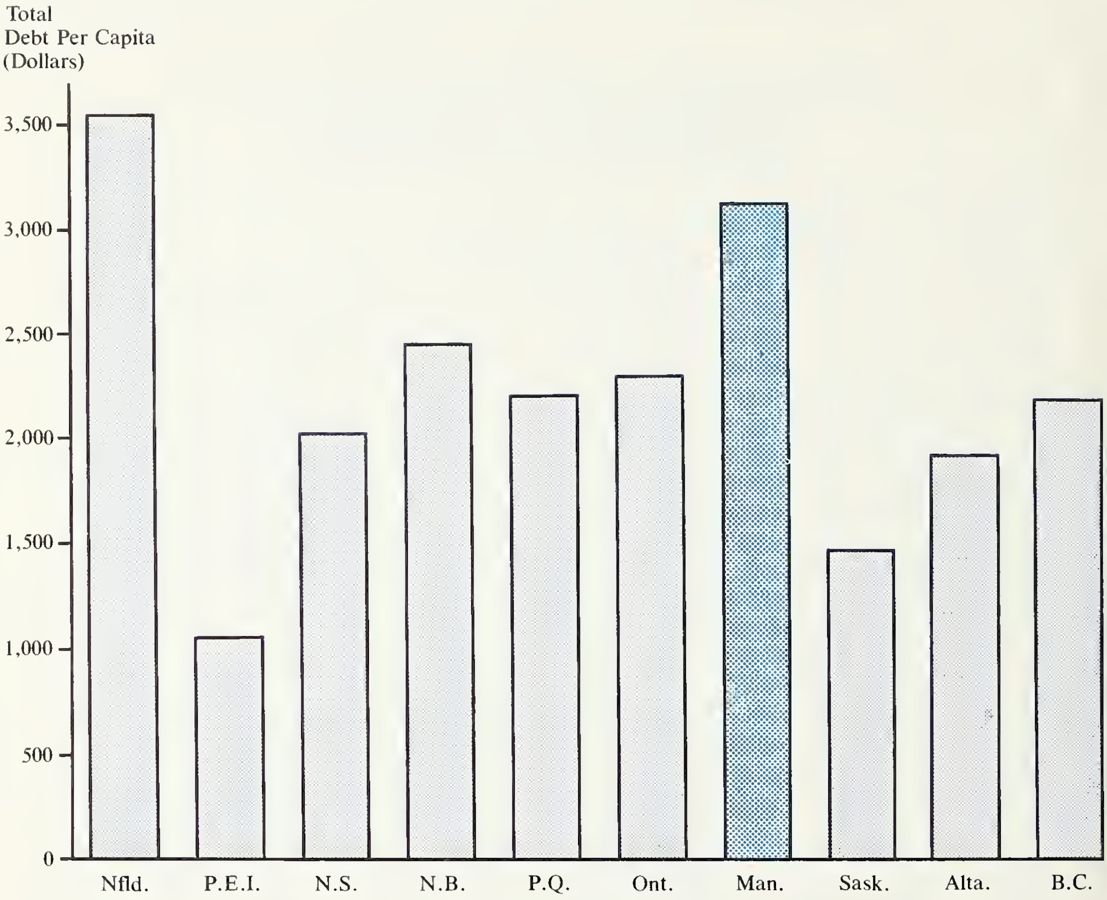
		1979/80 Estimate	% of Total
Income Taxes		$ 471,800,000	27.9
• Individual Income Tax	$356,200,000		
• Corporation Income Tax	115,600,000		
Manitoba Levies & Collections		380,205,000	22.5
• Gasoline Tax	$ 58,500,000		
• Mineral Tax (Incremental)	8,000,000		
• Metallic Minerals Tax	15,000,000		
• Motive Fuel Tax	17,000,000		
• Corporation Capital Tax	13,500,000		
• Revenue Act, 1964, Part I	17,000,000		
• Tobacco Tax	26,300,000		
• Retail Sales Tax	217,700,000		
• Others	7,205,000		
Other Revenues		99,727,900	5.9
• Fines & Costs	$ 5,726,500		
• Land Titles Fees	6,250,000		
• Insurance Corporations Tax	8,300,000		
• Motor Carrier Licences & Fees	7,130,000		
• Automobile & Drivers' Licences	21,250,000		
• Mines & Minerals	3,714,100		
• Water Power Rentals	3,801,500		
• Parks	4,795,700		
• Others	38,760,100		
Liquor Control Commission		72,000,000	4.3
Federal Transfers		665,867,800	39.4
Unconditional:			
• National Equalization	$241,750,000		
• Established Programs Cash Transfer	269,200,000		
• Government of Canada Subsidy	2,173,000		
Total Unconditional Transfers	$513,123,000		
Conditional — Government of Canada — Shared-Cost Receipts:			
• Education	$ 42,430,700		
• Health & Community Services	69,357,000		
• Northern Affairs	18,061,400		
• Highways & Transportation	8,858,700		
• Other	14,037,000		
Total Conditional Transfers	$152,744,800		
		$1,689,600,700	100.0

1979/80 Capital Authority Requirements for Self-Sustaining Programs

"Schedule A Capital"

Manitoba Hydro	$118,655,000
Manitoba Telephone System	35,256,000
Manitoba Water Services Board	2,318,000
Manitoba School Capital Financing Authority	11,000,000
Manitoba Agricultural Credit Corporation	25,000,000
Insulation Loan Program	3,000,000
University of Manitoba — Tache Hall	5,240,000
Manitoba Data Services	5,000,000
	$205,469,000

Provincial Per Capita Debt Comparison — 1977*



Province	Total Debt Per Capita — 1977* (Dollars)
Newfoundland	3,538
Prince Edward Island	1,050
Nova Scotia	2,020
New Brunswick	2,450
Quebec	2,205
Ontario	2,295
Manitoba	3,130
Saskatchewan	1,469
Alberta	1,918
British Columbia	2,204

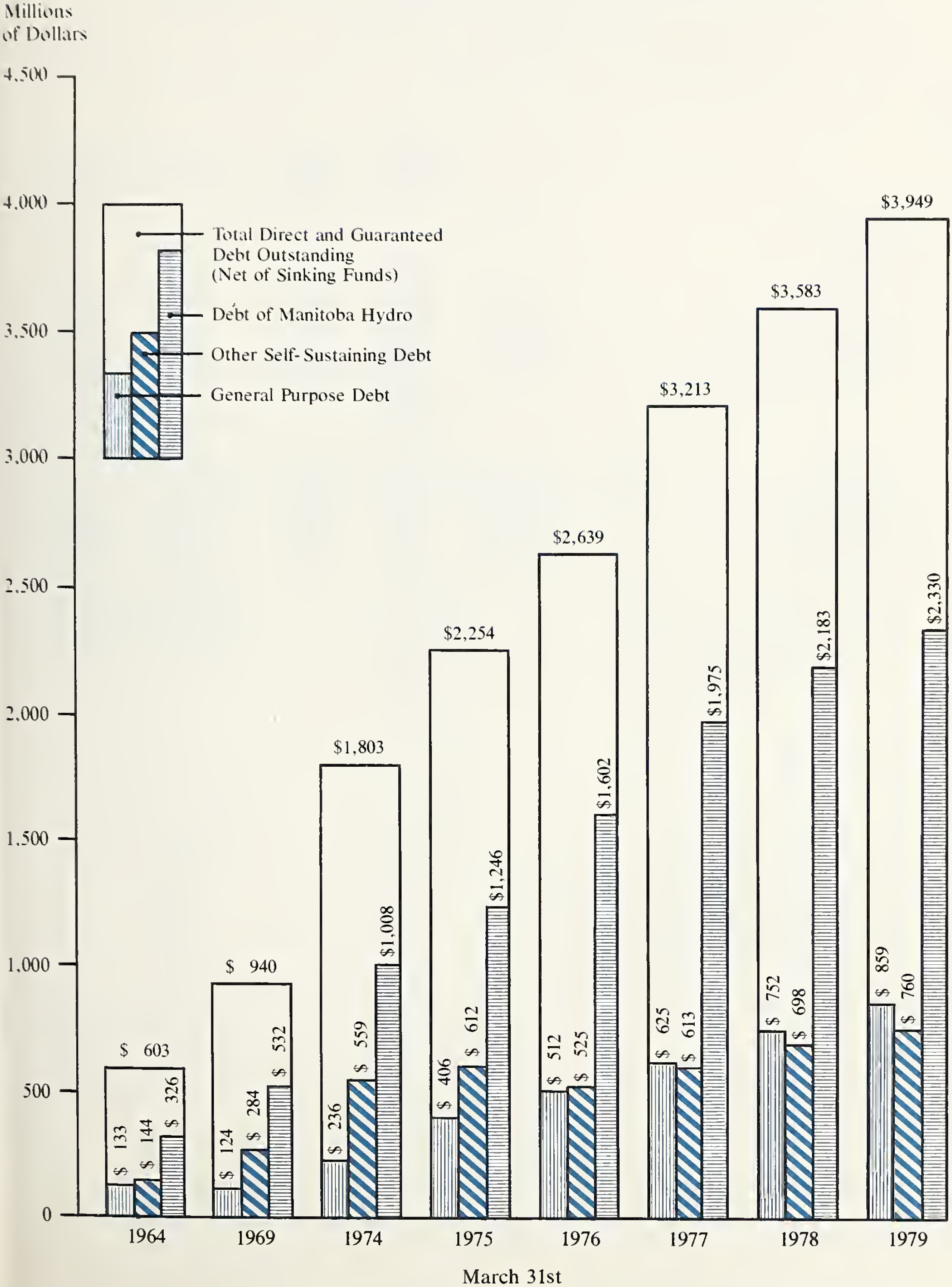
*Fiscal Year Ending March 31, 1977

Source: Bank of Montreal — **Provincial Summaries. July, 1978**

The following notation appeared with the information shown in the above table:

> "For the fifth consecutive year Newfoundland and Manitoba have led the other provinces in total debt per capita. Quebec has increased its debt per capita by 96% in the 1973-77 period, second only to Manitoba at 101%."

Province of Manitoba Direct and Guaranteed Debt: By Purpose



Province of Manitoba
Statement of Valuation and Purpose of Bonds, Debentures and Other Securities Outstanding as at March 31, 1979

(in thousands)

Valuation of Debt	Par Value	Canadian Dollar Equivalent at Date of Issue	Exchange Rate as at March 30/79	Canadian Dollar Valuation	Foreign Exchange Fluctuation
Direct:					
Payable in:					
Canadian Dollars	1,181,440	$1,181,440	$1.00	$1,181,440	$ —
U.S. Dollars	373,000	396,675	1.1594	432,456	35,781
Swiss Francs	905,000	426,094	0.6847	619,653	193,559
European Units of Account	45,700	54,738	(1)	103,013	48,275
Japanese Yen	27,000,000	113,177	0.005534	149,418	36,241
Deutsche Marks	150,000	67,578	0.6213	93,195	25,617
Hong Kong Dollars	150,000	33,518	0.2345	35,175	1,657
Total Direct		$2,273,220		$2,614,350	$341,130
Guaranteed:					
Payable in:					
Canadian Dollars	1,034,128	$1,034,128	$1.00	$1,034,128	$ —
U.S. Dollars	926,000	930,904	1.1594	1,073,604	142,700
Swiss Francs	160,000	56,114	0.6847	109,552	53,438
Deutsche Marks	90,000	27,558	0.6213	55,917	28,359
Pounds Sterling	4,978	10,495	2.3994	11,944	1,449
Total Guaranteed		$2,059,199		$2,285,145	$225,946
Total Direct & Guaranteed Debt		$4,332,419		$4,899,495	$567,076
Less: Sinking Funds		382,793			
Net Direct & Guaranteed Debt		$3,949,626			

Purpose of Debt					
General Purpose Debt		$1,040,119		$1,143,270	$103,151
Self-Sustaining Debt:					
Manitoba Hydro-Electric Board		$2,489,366		$2,861,482	$372,116
Manitoba Telephone System		469,367		561,176	91,809
Manitoba School Capital Financing Authority		191,000		191,000	—
Manitoba Agricultural Credit Corporation		65,879		65,879	—
Manitoba Development Corporation		8,108		8,108	—
Manitoba Housing & Renewal Corporation		8,118		8,118	—
Manitoba Water Services Board		12,014		12,014	—
Federal-Provincial Loan Agreements		16,617		16,617	—
Universities		26,011		26,011	—
Municipal, Hospital & Other Indebtedness		5,820		5,820	—
		$3,292,300		$3,756,225	$463,925
Total Direct and Guaranteed Debt		$4,332,419		$4,899,495	$567,076
Less: Sinking Funds		382,793			
Net Direct & Guaranteed Debt		$3,949,626			

(1) Payable in various currencies

ECONOMIC REVIEW AND STATISTICS

Manitoba Economic Review

The Canadian Setting

Real Gross National Product in Canada increased 3.4% in 1978 according to initial year-end estimates by Statistics Canada. Although this was an improvement from 1977's growth of 2.7%, it was below the federal government's predictions for the year. The federal Finance Minister held out the prospect of 5% real growth until well into the third quarter of 1978, when estimates of economic performance to date in the year had almost certainly placed 5% growth beyond the potential for a late resurgence in the economy. The November 16, 1978 federal Budget still maintained that "the growth in output should be close to 4%."

Unemployment continued to be a problem across the country in 1978. The national unemployment rate rose to 8.4% from 8.1% in 1977 as labour force expansion again exceeded employment growth. Inflation also worsened during the year. The Consumer Price Index increased 9.0% following a rise of 8.0% in 1977. Food prices led the increase as United States growers and the declining value of the dollar drove up prices of imported food products. Domestic supply shortages, particularly in beef production, added to the increases. A revision in the C.P.I. weightings late in the year reduced the relative importance of food purchases within the index, in line with changing consumer purchasing patterns, but on the basis of a comparison with a partial version of the old index which is made available by Statistics Canada, the new weights do not appear to have had a significant effect on the overall index. Overall, food prices were up 15.5% in 1978 while prices of other items continued to rise at about 6.5%.

Stronger net export performance was the main source of Canadian growth in 1978. While real final domestic demand grew only 2.1%, real exports increased 8.5%. However, part of the contribution to growth of the export sector was offset by a 4.1% rise in the volume of imports. The decline in the external value of the Canadian dollar was partly responsible for a 12.7% increase in import prices during 1978, and a substantial rise in Canadian dollar prices of exports which are priced in world markets. Increased profitability in export markets helped push corporate profits before taxes to a 16.7% annual increase in 1978.

Real personal consumption expenditures fell far short of the federal economic performance targets in 1978. Federal projections in early 1978 suggested that 5.4% growth in volume of consumption expenditures was required over the medium term to meet federal growth targets. In the November Budget, the federal Finance Minister spoke of a 3½ to 4% rise in consumer spending. However, national accounts estimates show that consumer expenditures were up 3.1% for the year. The stimulus provided by federally-initiated personal income tax cuts early in the year and indirect tax cuts later on was in part offset by price and interest rate increases.

The volume of investment spending in Canada as a whole in 1978 was virtually unchanged from 1977. Unlike the situation in Manitoba, residential construction was the major source of weakness with a decline in real expenditures of 4.8%. Non-residential construction activity was also weak, advancing by a modest 2.4% in 1978. Business investment in machinery and equipment was about constant in volume in 1978 compared with 1977.

Expenditures by all levels of government increased by 11.6% in current dollars or about 1.5% in real terms. Government revenues, however, rose only 8.7% in 1978 with the result that the net deficit of the total government sector rose from $5.4 billion in 1977 to $8.2 billion in 1978 on a national accounts basis, even including Alberta's substantial surplus.

For 1979, most economic observers see little change in the overall growth prospects for the Canadian economy, although a shift in the sources of growth from the foreign sector to stronger domestic demand is widely anticipated. With recent rises in the value of the Canadian dollar, and with growth in several of Canada's trading partners, especially the United States, expected to weaken, there does not appear to be much scope for a repetition of the large export gains recorded in 1978. Nonetheless, the improvement in Canada's competitive position brought about by the lower value of the dollar and by the deceleration in wage gains since 1976 means that export opportunities for Canadian firms, particularly in the manufacturing sector, still exist, and their successful exploitation will be an important potential basis for strength in the economy over the medium term. The latest round of the General Agreement on Trade and Tariffs, which was initialled in Geneva last month, represents a further step in this direction.

One of the chief concerns regarding the Canadian outlook for 1979 is the high level of interest rates. The Bank of Canada raised its prime lending rate seven times between January, 1978 and January, 1979, bringing the rate from 7.5% to an unprecedented 11.25%. This record high interest rate has already been costly in terms of employment and output growth, and has also had an adverse effect on inflation, at least in the short run.

Although the targeted growth rate of the narrowly defined money supply — M1, currency and demand deposits — fell from 12% in 1977 to about 7% in 1978, the growth of other monetary aggregates — including savings, personal term deposits, and foreign currency deposits — accelerated during the year.

In addition to high rates of interest, further increases in food prices and the recent sharp rise in the price of imported oil are dampening prospects for much improvement in inflation in Canada this year although the recent upturn in the Canadian dollar can be expected to stabilize imported food prices somewhat, at least temporarily. There is widespread concern that pressure for increased wage settlements induced by ongoing inflationary pressures could become a major negative factor affecting Canada's competitive position into the 1980's.

Developments in Manitoba

Summary

In Manitoba, 1978 was a year of moderate economic recovery, following three years of virtually no growth in production outside the agricultural sector.

The gross value of production, the Gross Provincial Product, topped $9.5 billion for the year, an increase of almost 10% over the 1977 level.

The improvement in economic conditions and prospects for continued growth were particularly evident in the resurgence in private sector investment spending which occurred in 1978. Although the initial outlook for the year suggested only moderate increases in investment spending, there was a steady upward trend in private investment intentions statistics over the course of the year. "Preliminary actual" estimates of total private new capital expenditures reached $1.4 billion, an increase of 22% over 1977's level of $1.1 billion. This was the greatest percentage increase in private investment of any province in Canada.

Economic growth in 1978 was based in the goods producing industries, especially housing, manufacturing and agriculture. The momentum gained in 1978 is carrying over into the economy in 1979. Further growth has occurred in the first quarter in manufacturing employment, and incomes generated in the agricultural sector are having a positive effect on a number of industries in the supply and service sectors of the province. Activity in some areas, notably housing, and to a lesser extent agriculture, is not likely to duplicate the strong performance recorded last year. However, renewed strength in mining production, continued growth in manufacturing and utilities output, and expansion of the service sector are expected for the current year.

The outlook for Manitoba is somewhat tempered by current high interest rates in Canada and by the influence of other national and international developments. Although there is evidence that not all the recent increases in inflation in Canada have been transmitted to the provincial economy, and the province's record of job creation has stood up very well in recent months, the economy is by no means immune to national economic events, and has suffered losses as a result of such factors as tie-ups in the grain transportation system and the high cost of both consumer and producer borrowing.

Employment and Incomes

Overall employment in Manitoba increased by 11,000 to average 440,000 in 1978. Private sector employment accounted for the entire increase, and growth in manufacturing employment accounted for nearly half, or 5,000 of the new jobs.

In the private sector, total employment was up 14,000, to an average of 340,000 in 1978, an increase of 4.3%, after no growth whatsoever from 1975-1977. The re-emerging strength of the private sector in the economy is shown by the growth in the private share of total employment in the past

eighteen months. From October, 1977 to March, 1979, private sector employment increased from 75% to 78% of total employment.

Table 1

Private and Public Employment
(thousands)

	Annual Averages		First Quarter	
	1977	1978	1978	1979
Private Paid Workers	271	279	263	284
Employers, Own Account and Family Workers	55	61	56	59
Private Sector Employment	326	340	319	343
Public Sector Employment (all levels of government)	104	100	101	97
TOTAL EMPLOYMENT	429	440	420	439

Totals may not add due to rounding.

SOURCE: Statistics Canada, and Manitoba Department of Finance.

A decline in the number of in-migrants to Manitoba from other provinces and abroad has meant that most of the new jobs have been filled by Manitoba residents.

The total labour force in Manitoba increased to 471,000 in 1978. This average level was 15,000, or 3.3% above the 1977 average. Labour force growth in 1978 was mainly the result of more women joining the labour force and a large number of young people coming on the job market for the first time. The influx of women and young workers reflected the improvement in employment opportunities in the province, as well as the contemporary trend among women to seek employment outside the home. The result was an increase in the total labour force participation rate, that is, the percentage of persons 15 years of age and over who are working or looking for work, of 1.4 percentage points to 63.1%. The increase was rather large for one year and greater than the advance in the national rate, which increased 1.1 percentage points to 62.6%. The rise in the labour force participation rate continued in the first quarter of 1979, but the year as a whole may well post smaller gains than in 1978.

The unemployment rate in Manitoba in 1978 averaged 6.5%, compared with 5.9% in 1977, and 8.4% nationally. The seasonally-adjusted unemployment rate averaged 5.4% in the first quarter of 1979.

Youth unemployment has been a cause for concern both nationally and provincially in recent years. Unemployment rates among persons under the age of 25 have been substantially above average. However, the share of all persons aged 15 to 24 who held jobs in Manitoba increased during 1978 and averaged 60.1% for the year compared with 59.5% in 1977. Nationally the

share of 15 to 24 year olds who held jobs averaged 55.0% in 1978. The provincial government's summer youth employment programs, and mainly the Private Sector Youth Employment Program, helped create or finance more than 7,000 jobs for young people during the summer months of 1978. There are indications from Canada Manpower that the student employment picture, at least for university graduates, has improved this year and the government has announced plans to reinstitute the Private Sector Youth Employment Program with funding of $3 million.

Average weekly earnings increased by 6.0% in 1978, a continuation of the decelerating trend of 1977. This factor, along with the dollar devaluation has contributed to an improvement in the competitive position of Manitoba industries, and helped stimulate employment expansion in the province.

Preliminary estimates based on Statistics Canada data indicate that total personal income and personal disposable income increased by at least 10% and 10.5% respectively in 1978. Some estimates, such as those contained in the latest Provincial Forecast of the Conference Board in Canada, place the increases even higher. The Conference Board projects that personal income and personal disposable income increased by 11.8% and 13.0%, respectively, in Manitoba last year. In 1977, personal income increased 8.7% and personal disposable income was up 9.3%.

Farm incomes, which performed exceedingly well last year, showed the greatest percentage increase, as noted in the section on Agriculture, which follows. However, growth in non-farm business income, interest and dividend payments, and in weekly earnings and employment also contributed to the rise. The introduction of a number of tax reduction measures during the year increased the disposable income available to Manitobans.

Prices

The Winnipeg C.P.I. increased 8.5% in 1978, an increase of one-half a percentage point over the 1977 growth rate. However, the full extent of the national advance in consumer prices last year was not transmitted to the provincial economy, as shown by the acceleration in the Canadian C.P.I. of a full percentage point in 1978, to 9.0%.

In March, 1979, the Winnipeg C.P.I. stood at 8.1% above the March, 1978 level, with the food component of the index being 14.5% higher than the previous March. At the same time the Canadian C.P.I. was up 9.3% and Canadian food prices were 17.4% higher than in March, 1978.

Investment

Private sector investment plans increased steadily throughout 1978, according to surveys conducted by Statistics Canada. Preliminary actual expenditure estimates show that private sector new capital formation grew by 21.9% in 1978, faster than in any other province, and more than quadruple the 1977 rate of increase in Manitoba.

Total new capital spending (the sum of private and public expenditures) increased by 8.5% compared with 7.8% nationally. Most of the increased

expenditure was in the housing and primary and construction sectors. However, investment in the manufacturing and trade, finance and commercial sectors also grew faster than the national average.

The outlook for 1979 is for substantial increases in manufacturing investment (expected to rise 17.4%) and trade, finance and commercial investment (up 35.3%). The expected growth rates in these sectors are each double the national rates. Housing investment is expected to decline somewhat in 1979, following the boom conditions in residential construction last year. The preliminary outlook for all private sector new capital spending is for a 3.9% increase. However, based on last year's experience, the percentage change could be revised upward in coming months. For 1978, private sector investment intentions reported in March last year stood at 6.5%; subsequently this percentage was raised to 10.2% in late Summer and to 21.9% in March, 1979.

Primary Industries

The value of output in Manitoba's primary sector advanced by more than 10% to reach a total of $2.3 billion in 1978. A downturn in mineral resource output was offset by strong gains in the value of agricultural and forestry production, and growth in the fishing industry.

Agriculture

The value of agricultural production advanced strongly in 1978, as a result of more crop specialization and higher prices for Prairie grains, as well as stronger livestock prices. Preliminary estimates by the provincial Department of Agriculture indicate that the total value of agricultural production reached $1.5 billion in 1978, an increase of more than 20% from 1977. According to Statistics Canada, preliminary estimates of farm cash receipts were up nearly 26% in 1978, to total $1.1 billion. This was the first significant improvement since 1975; farm cash receipts declined in 1976 and were up less than 1% in 1977. Projections by the Canadian Agricultural Outlook Conference show that, after allowing for increases in farm input costs, total net farm incomes advanced by 27% last year, from $348 million in 1977 to about $442 million in 1978.

Table 2

Farm Cash Receipts and Net Farm Income

	1976	1977r	1978p	Percentage Change 1976/ 1975	1977/ 1976	1978/ 1977
		($ millions)				
Crop Sales	498.3	486.4	600.5	−12.5	− 2.4	23.5
Livestock Sales	362.6	390.6	515.1	5.5	7.7	31.9
Other Sources	30.0	22.0	14.1	35.1	−26.7	−35.9
TOTAL FARM CASH RECEIPTS	890.9	898.9	1,129.6	− 4.7	0.9	25.7
TOTAL NET FARM INCOME	345.0	348.0	442.0	−17.5	0.9	27.0

r — revised; p — preliminary.

Totals may not add due to rounding.

SOURCE: Statistics Canada and Manitoba Department of Agriculture.

While much of the improvement in the agricultural picture can be attributed to rising prices brought about, at least in part, by the decline in the value of the Canadian dollar, agricultural receipts were also bolstered by the cyclical upswing in livestock prices, and the continuing diversification of agricultural production. The value of production of specialty and other crops (including rye, mixed grains, grain and silage corn, field peas, buckwheat, mustard seed, sunflowers, rapeseed, tame hay, sugar beets, potatoes, vegetables, fruits and ornamentals and forage seeds) exceeded the value of wheat production in the province for the first time in 1978, according to preliminary estimates by the Department of Agriculture. Oats and barley are the other major crops produced in the province.

Despite a decline in the volume of beef production, that is, total marketings plus changes in inventory of animals on farms, production of tame hay increased markedly in 1978, due to higher yields per acre.

Production of oilseeds, potatoes and sugar beets also showed strong growth. Oilseed production, to supply the oilseed crushing plant at Altona, expanded by about 50% last year. Output in 1979 and into the early 1980's is expected to continue to grow as domestic supplies are substituted for seeds currently being imported for processing. The opening of a large potato processing plant at Portage la Prairie, in January, 1979, stimulated potato production in the 1978 crop year. Growing contracts for the company involved could increase Manitoba's potato acreage from the current level of 37,000 acres to 40,000 acres by 1980, and up to 45,000 acres within five years. Anticipated growth of demand by other major contracting companies could expand production even further.

In order to take greater advantage of the potential for increasing value added in specialty crops and livestock production in the province, the Governments of Manitoba and Canada entered into a five-year, $18.5 million agricultural shared-cost agreement last December. Programs under that agreement are intended to improve productivity, increase the adoption of new technologies, and assist in the expansion of production of special crops. The agreement also provides for a program intended to enhance the quality of land and water resources.

Although agriculture was clearly one of the bright spots in the provincial economy in 1978, the sector remains dependent on international price developments and domestic marketing and transportation policies. After raising serious concerns about current grain handling problems at a Federal-Provincial First Ministers' Conference on the Economy in November, 1978, and suggesting a special follow-up conference on the matter, Premier Lyon convened a meeting of Western Premiers, federal Cabinet Ministers, heads of grain and railway companies, and others concerned with Prairie grain transportation in January of this year in Winnipeg. One of the delegates, the Chairman of the Prince Rupert Grain Coordination Committee, summed up the results of the conference in welcoming the Western Premiers to his city in late March by stating:

"The January, 1979 Winnipeg conference on grain handling and transportation, hosted by the Government of Manitoba, and co-chaired by Premier Lyon, has been widely acknowledged an outstanding success.

This upbeat and optimistic conference was singular in the virtual unanimity displayed by those present with regard to identifying the main constrictions in grain transportation, the urgent need for rapid progress to resolution of those constrictions, and the unhappy near term results for Prairie agriculture and the Canadian economy if positive and immediate action is delayed for any reason."

This Manitoba initiative is being followed up with further consultations among the parties involved.

Given the sizeable harvest in the United States and in other grain producing countries during the 1978 crop year, it was expected that grain prices would soften somewhat in 1979, rather than continue the advances recorded last year. Preliminary projections by the 1979 Agricultural Outlook Conference held last December suggested that receipts from crops in Manitoba might decline this year by 7.6%. Beef prices, however, were expected to show continued strength so that total farm cash receipts would fall by less than 3%.

Since those projections, extensive flooding in the valleys of the Red River and its tributaries and the late Spring have increased the uncertainty in the agricultural outlook. The flood has disrupted poultry, dairy and other livestock operations, damaged or destroyed some stocks of grain stored on Manitoba farms and delayed Spring seeding by several weeks. Some grain farmers will likely increase the acreage planted in fast maturing flax and special crops. The full extent of losses and damage to farm buildings and equipment due to the flood is not yet known.

Mineral Resources

The total value of mineral production in the province reached approximately $466 million in 1978. This represents a decrease of some $97 million from the value of production recorded in 1977. The decline is attributable to a drop in the value of metallic mineral production from $442 million in 1977 to $331 million in 1978, principally in response to large producer inventories of nickel which had accumulated by the end of 1977.

Metallic mineral production continued to account for over 70% of Manitoba's total value of mineral production, with nickel, copper and zinc being over 90% of the value of metallic minerals. Other metals produced in Manitoba include cadmium, cobalt, gold, lead, silver, selenium, tellurium and tantalum. The value of output of industrial minerals, including cement, gypsum, lime, quartz, salt, sand and gravel, sulfur, stone, peat moss and clay products increased in 1978 to an estimated $90 million from $82 million in

1977. Even though the volume of production of crude oil continued to decline in 1978, its value reached $46 million, compared with $40 million in the previous year, as a result of continual upward adjustments in the domestic price of crude oil.

Table 3

Value of Mineral Production

	1976	1977r	1978p	Percentage Change 1976/1975	1977/1976	1978/1977
	($ millions)					
Nickel	264.2	285.0	162.4	- 8.6	7.9	-43.0
Copper	82.3	92.1	99.4	- 9.2	11.9	7.9
Zinc	50.2	48.2	43.9	- 5.1	- 4.0	- 8.9
Other Metals	12.4	16.3	25.1	-19.0	31.5	54.0
Industrial Minerals	69.2	81.6	89.5	36.5	17.9	9.7
Fuels	33.6	40.4	46.0	6.7	20.2	13.9
TOTAL	511.9	563.7	466.4	- 3.5	10.1	- 17.3

r — revised; p — preliminary.

Totals may not add due to rounding.

SOURCE: Statistics Canada and Manitoba Department of Mines, Natural Resources and Environment.

The year closed on an optimistic mood in the non-ferrous metals markets. During 1978, the heavy world inventories of nickel, copper and zinc which had accumulated by the end of 1977 were steadily and substantially reduced, and there is every indication that this trend will continue through 1979. If markets continue to strengthen during the second half of 1979 and into 1980, then a positive impact on production can be expected.

In 1978, metal prices generally declined during the first half of the year. Prices improved in the third quarter and by year-end the posted prices for precious and base metals were moving firmly upward partly in response to the continued weakness of sterling and the United States and Canadian dollars.

The provincial government has announced plans to introduce mineral taxation reforms in the current Session of the Legislature to improve the competitiveness of the mineral industry in the province and to enhance prospects for longer term development.

A number of new developments in copper-zinc mining were undertaken during 1977 and 1978. Hudson Bay Mining and Smelting Co., Ltd. commenced operations at its Centennial and Westarm mines located near Flin Flon, and also constructed a 3,800 ton per day concentrator at Snow Lake. The new concentrator, with a reported capital cost of $33 million, is expected to

begin operations this month. Sherritt Gordon Mines Ltd. has developed the underground portion of its Ruttan Lake copper-zinc mining operation near Leaf Rapids. This project involved an estimated $36 million investment and was brought into production in March. Open pit operations at Ruttan Lake will be gradually phased out.

In the industrial minerals sector, a new quarry for gypsum was opened in 1978 by Westroc Industries Ltd., ten miles north of Amaranth, with crushed gypsum being trucked for use at the company's gyproc plant in Winnipeg.

Forestry

The logging sector of the forestry industry in Manitoba produced about 640,000 cunits of wood in 1978, up an estimated 10,000 cunits from 1977. (A cunit, a standard measure of volume of wood production, is a little larger than a cord.) In a year of relatively buoyant conditions in the forestry industry, this rather modest increase was to some extent the result of drawing down inventories. Output is expected to increase more strongly this year. The value of logging production reached about $40 million in 1978, an increase of 8.4% from 1977, according to estimates by the Department of Mines, Natural Resources and Environment.

Primary wood manufacturing activity, that is, sawmilling and pulp and paper production, increased by an estimated 27% last year to $127 million, resulting in a 15% increase in employment — to 1,500 — in this sector of the industry. Prices of primary wood products were up due to the decline in value of the Canadian dollar supported by strong demand, particularly in the United States market.

The secondary manufacturing sector of the Manitoba industry includes a range of processed wood products from shingles to insulating boards, sash and door products, to paper bags. The value of production in this sector of the industry increased by about 20% in 1978, to total $172 million. Secondary manufacturing employs the greatest number of people in the forestry industry — nearly 3,000 or about 5% of all manufacturing employment.

The total value of sales in the forest products industry in 1978 thus totalled an estimated $339 million, up 21.3% from 1977. Part of the value of primary and secondary wood products manufacturing is included in total manufacturing shipments data discussed below.

The Governments of Manitoba and Canada have recently announced additional funding of $16.7 million under the Northlands Agreement which will involve a number of measures designed to encourage economic growth in the north.

Fishing

The estimated value of Manitoba fish sold by the Freshwater Fish Marketing Corporation in 1978 increased by 11.2% to $18 million. Although production for the Corporation declined by one million pounds, the devalua-

tion of the dollar raised export prices and resulted in a higher return to fishermen from existing export markets in United States and Europe. The devaluation has also made Manitoba fish more competitive in new export markets, and has already helped promote a first sale to Poland of five million pounds of white fish. This sale was important in reducing unusually high inventories in the Manitoba fishing industry.

Construction, Housing and Utilities

The value of building permits issued in Manitoba in 1978 advanced 17.9%, more than three times the national growth rate of 5.8%. Housing starts for the province as a whole were up 28.8%, while in urban areas housing starts increased by 38.6% in 1978.

Table 4

Housing Starts and Completions

	1976	1977	1978
		(number of units)	
Starts	9,339	9,410	12,121
Completions	8,492	8,720	10,550
		(year-over-year percentage change)	
Starts	19.0	0.8	28.8
Completions	−3.1	2.7	21.0

SOURCE: Statistics Canada (CANSIM) and Manitoba Department of Finance.

Time lost due to work stoppages during the prime construction season in 1978 was partly responsible for the value of construction work put in place during the year being somewhat less than the building permits and housing starts data would suggest. On the other hand, with the housing boom of 1978 not expected to be repeated in the current year, and with current interest rates inflating the financing costs of all new construction projects, some backlog of construction work from last season should assist the industry this season.

Gross revenue from electrical energy in Manitoba for the calendar year 1978 increased by 38% to $331 million, while electricity available for sale increased 24.7% to 18.4 billion kilowatt hours. The increase in available electricity resulted from a return to normal water flows on the hydro river systems throughout 1978, and additional generating capacity brought on stream at the Long Spruce and Jenpeg stations.

In April, the start-up of another generator at Long Spruce brought the total generating capacity of the integrated hydro system in Manitoba to 3,825 megawatts.

As a result of the higher water level conditions, hydro imports from the United States into Manitoba were minimal in the last fiscal year, while the value of exports to the United States, Ontario and Saskatchewan was over $82 million, or nearly 2½ times the value of exports in 1977/78. Further exports

are being discussed with the western provinces and several power companies in the United States.

Tourism

Travel expenditures in Manitoba, including expenditures by residents, other Canadians, Americans and other foreigners reached $340 million in 1978, an increase of 2.1% from 1977. Most of the modest growth in travel expenditures for the year resulted from a rise in spending by residents; non-resident expenditures increased marginally to $115 million. The number of visitors to Manitoba was around 2.7 million, according to the Department of Tourism.

Manitoba has traditionally received more in travel expenditures by Canadians than provincial residents spend in other parts of Canada. However, this net inflow of travel expenditures has been more than offset by the deficit in the balance of travel payments between Manitoba and the United States and other foreign countries. The decline in the value of the Canadian dollar is expected to make Manitoba a more attractive destination for foreign visitors and to reduce the travel deficit, but while this trend is already evident at the national level, provincial data are not yet available to confirm the trend in Manitoba.

Convention activity in Winnipeg increased last year, with the total number of delegates to Winnipeg conventions and conferences of over 100 persons rising 17.5% from the 1977 level, to about 80,000 in 1978. Convention activity maintained occupancy rates in the major hotel facilities in the city, particularly in the Spring and Fall period. The convention outlook for 1979, as reported by the Winnipeg Convention Centre and the Tourist and Convention Association of Manitoba, suggests a record year in this tourism sector on the basis of current bookings.

Investment in tourist, recreational and entertainment facilities in the province increased last year. Total new construction and repair expenditures of $27 million were planned, an improvement of 10.8% over 1977. Recreational buildings (theatres, arenas, amusement centres), parks and other facilities were slated to receive $21 million in construction funds, while hotel, club, restaurant and tourist cabin owners planned $6 million worth of work during the year.

In December, the federal and provincial governments signed a $20 million Tourism Development Agreement to provide funds for the enhancement and development of tourist destination areas in the province, as well as improve productivity in the tourism sector. Over the five-year term of the Agreement, which will be implemented in 1979, capital cost assistance grants will be available to improve, expand or develop projects in both Winnipeg and rural areas of the province. Another major program will be assistance in establishing, expanding or modernizing accommodation facilities outside of Winnipeg. These programs are expected to stimulate construction activity in the tourism sector.

Funds have also been allocated to promotion of tourism in Manitoba and to improving the organization and institutional structure of the tourism industry.

The Department of Tourism will increase promotional activity in primary tourism markets this year, and expects an increase in the number of visitors to Manitoba in 1979. It is not expected that there will be a recurrence of transportage stoppages such as the Northwest Orient Airlines' strike which resulted in a loss of an estimated 13,000 air visitors during the peak tourism season of 1978 — and in addition, Air Canada will begin flights on the new Winnipeg-Chicago route next month.

Manufacturing

Manufacturing shipments totalled nearly $3.4 billion in 1978 according to preliminary estimates from Statistics Canada. Shipments in 1978 showed a year-over-year increase of 16.7%, compared with a rise of only 4.0% in 1977.

Particularly strong growth was recorded in manufacturing shipments of primary metals (up 40.4%); clothing and textiles (up 17.1%); wood products, furniture and fixtures (up 16.5%); and chemical and electrical products (up 15.7%). In addition to the healthy growth rates for these products, shipments of machinery, metal fabricating and transportation equipment (up 19.0%) recovered following a decline of 5.0% in 1977. Shipments of non-metallic mineral products also recovered (with shipments up 14.0%), following a decline of 4.4% in 1977.

Table 5

Manufacturing Shipments by Industry

	Value of Shipments 1978p ($ millions)	Percentage Change		
		1976/1975	1977/1976	1978/1977
Food and Beverage	1,087.9	6.0	7.1	9.6
Metal Fabricating, Machinery and Transportation Equipment	770.5	18.3	−5.0	19.0
Clothing, Knitting and Textiles	248.9	9.0	8.7	17.1
Chemical and Electrical Products	195.1	1.0	7.1	15.7
Wood, Furniture and Fixtures	163.6	6.4	6.3	16.5
Primary Metals	158.4	−10.1	3.9	40.4
Printing, Publishing and Allied	147.7	10.6	9.6	14.0
Non-Metallic Minerals	104.8	30.9	−4.4	14.0
Other	489.7	−3.5	9.0	25.8
TOTAL	3,366.7	7.5	4.0	16.7

p — preliminary.
SOURCE: Statistics Canada (CANSIM) and Manitoba Department of Finance.

The improved performance of manufacturing industries resulted in the creation of 5,000 new manufacturing jobs, bringing the annual average to 59,000 in 1978. This increase follows declines in manufacturing employment

in 1976 and 1977. In the first quarter of 1979, the average level stood at 62,000, an increase of 3,000 over the 1978 average.

Table 6

Manufacturing Employment

	Number Employed	Year-Over-Year Percentage Change
1976	60,000	− 7.7
1977	54,000	−10.0
1978	59,000	9.3

SOURCE: Statistics Canada.

The food and beverage industry continues to be the major employer and the major contributor to the total value of manufacturing shipments in the province. The new potato processing plant at Portage la Prairie will employ 350 persons, as well as stimulate the production of potatoes and other vegetable crops. Other important developments in the food and beverage sector include a general expansion of meat processing activity.

The strongest employment growth has taken place in the clothing, machinery, primary metals and metal fabrication sectors. The clothing industry in particular has recovered remarkably over the past year because of the import quotas and the declining Canadian dollar. The decline in the Canadian dollar has likewise stimulated greater exports of many Manitoba products, especially in the metal products industry.

In April, 1978 the Governments of Manitoba and Canada signed a five-year, $44 million Industrial Agreement, known as Enterprise Manitoba, designed to encourage more balanced industrial growth in the province. The Agreement provides for initiatives to take advantage of development opportunities in the food and beverage, health industry products, light machinery, transportation equipment, aerospace/electronics and other selected sectors with the greatest potential for growth. Funds for promoting commercial development and municipal infrastructure are also available.

Enterprise Manitoba has recently announced that an Industrial Technology Centre will be established in Winnipeg under the Agreement, with initial funding of $4.4 million. The Centre will provide a range of technical services, including product development, process engineering, raw materials and product testing, and quality control standards and methods. The Centre will be staffed with a core group of engineers and scientists with extensive industrial experience, supported by a library and an electronic information retrieval system, and by equipment for analysis, testing, and product and process development. An important focus of the Centre will be the health care products industry, with emphasis also being given to other priority sectors such as aerospace/electronics, light machinery and transportation equipment. The Industrial Technology Centre will be operated by the Manitoba Research Council, reporting to the Minister of Economic Development. An advisory board with majority representation from the private sector will be established

to advise the Council on matters dealing with technological and management policies. The physical plant of the Centre will probably be integrated with a planned Enterprise Development Centre, with funding of $3.3 million, that will be established in Winnipeg to provide small manufacturing firms with access to development assistance programs. A second Enterprise Development Centre is planned for Brandon.

Details of an expansion of the existing Food Products Centre in Portage la Prairie have also been announced by Enterprise Manitoba. The Food Products Centre will be allocated an additional $2.4 million to provide technical services similar to the Winnipeg-based Technology Centre, but aimed at Manitoba-based food products companies. The objective is to enhance the contribution of the food, beverage and animal feed sectors to Manitoba's economy. Technological services will be provided by the Centres on a fee-for-service basis that will be determined by advisory boards in consultation with the Centres' management.

The provision of interest-free forgiveable loans, under the Rural Small Enterprise Incentives program, is another important initiative of Enterprise Manitoba. Loans totalling $312,000 have recently been granted to 14 rural Manitoba firms, which are expected to stimulate $703,000 in capital investment resulting in at least 42 permanent new jobs. New manufacturing enterprises which will receive loans include: seed processing plants in Beausejour, Melita and Shoal Lake; wood products and tire retreading plants in Dauphin; boatbuilding in Gimli; sawmills in Manigotogan and Pine Falls; an aircraft components plant in Swan River; and a livestock equipment manufacturer in Arden. Loans for equipment or expansion will go to existing enterprises: printing in Brandon; wood products in St. Malo; a machine shop in Swan River; and dill oil distillation in Winkler.

Retail Sales

Revised estimates show retail sales in Manitoba at $2.7 billion in 1978, an increase of 9.3% following 1977's growth rate of only 4.4%. The final estimate for 1978 is expected to be available shortly. Some shifting forward of retail sales into September, due no doubt to the expected expiry of the temporary sales tax reduction, may have been evident in the nearly 25% increase in sales which occurred in that month compared to the same month a year earlier. September was the last month of the tax reduction which had been in effect since April. The rush to purchase before the end of the tax reduction period may also have taken some of the momentum out of the Christmas retailing season, which on the basis of income performance last year would normally have been expected to have been stronger than recorded. January and February estimates of retail sales appear to indicate that a recovery of sales has occurred following the low growth rates of the fourth quarter of 1978.

Farm implement sales responded to the improved agricultural situation and showed a 27% increase during 1978.

Following is a set of major economic statistics for 1978.

Economic Statistics - Manitoba

	1976	1977r	1978p	Percentage Growth Rates 1977/1976	1978/1977
GROSS PROVINCIAL PRODUCT: ($ millions)	8,006.0	8,654.0	9,510.0	8.1	9.9
INVESTMENT:					
Total ($ millions)	1,812.4	1,897.3	2,058.9	4.7	8.5
Private Sector ($ millions)	1,062.0	1,138.0	1,387.3	7.2	21.9
Public Sector ($ millions)	750.4	759.3	671.6	1.2	−11.6
INDUSTRY OUTPUT:					
Agricultural Production ($ millions)	1,083.0	1,213.0	1,462.0	12.0	20.5
Manufacturing Shipments ($ millions)	2,773.5	2,885.6	3,366.7	4.0	16.7
Mineral Production ($ millions)	511.9	563.7	466.4	10.1	−17.3
Electric Power Available (kwh; millions)	15,189.0	14,769.0	18,423.0	−2.8	24.7
OTHER INDICATORS:					
Housing Starts (units)	9,339.0	9,410.0	12,121.0	0.8	28.8
Retail Trade ($ millions)	2,408.0	2,513.0	2,747.1	4.4	9.3
Tourism Expenditures ($ millions)	112.9	114.2	114.7	1.2	0.4
INCOMES:					
Farm Cash Receipts ($ millions)	890.9	898.9	1,129.6	0.9	25.7
Total Personal Income ($ millions)	6,533.0	7,099.0	7,825.0	8.7	10.2
Personal Disposable Income ($ millions)	5,459.0	5,965.0	6,603.0	9.3	10.7
Average Weekly Wages and Salaries ($)	208.5	226.3	239.9	8.5	6.0
POPULATION: June 1st (thousands)	1,021.5	1,029.0	1,032.4	0.7	0.3
LABOUR FORCE:					
Labour Force (annual average; thousands)	447.0	456.0	471.0	2.0	3.3
Employment (annual average; thousands)	426.0	429.0	440.0	0.7	2.6
Participation Rate (%)	61.2	61.7	63.1	—	—
Unemployment Rate (%)	4.7	5.9	6.5	—	—
CONSUMER PRICE INDEX: Winnipeg (1971 = 100)	150.6	162.7	176.5	8.0	8.5

SOURCE: Statistics Canada (CANSIM) and Manitoba Department of Finance.

r — some data have been revised in accordance with updated Statistics Canada information.

p — preliminary.

RECENT MINISTERIAL STATEMENTS ON FISCAL AND ECONOMIC POLICY

FEDERAL-PROVINCIAL CONFERENCE OF FIRST MINISTERS ON THE ECONOMY, OTTAWA, NOVEMBER 27-29, 1978

OPENING STATEMENT BY PREMIER STERLING LYON

Prime Minister:

There were two comments this morning which I believe deserve repetition — one, I believe, by my colleague the Premier of Ontario, who said that growth proceeds from a sense of trust. I think that that is a statement we should keep in front of us during the next two to three days in order that we can establish and underline that such a trust must exist between and among governments of this country if we are to achieve that level of economic development that is the desire of all of us.

There was a statement, sir, made by you as well, that a sense of renewal will come from responding to the will of Canadians rather than to the territorial claims of government. I pick from that statement, sir, the words "responding to the will of Canadians", because I think if we were truly to echo and to reflect the will of Canadian people today with respect to economic development, it would be to follow and to track much more closely those goals — those items that we set forward in the February communique — indicating the need for fiscal responsibility on behalf of all governments, the need to reduce deficit financing, the need to reduce the tax imposed on the people of Canada. That would be, I suggest, a direct response to the will of the Canadian people today. Not only that, but it would be something that would be tremendously helpful to economic development in our country.

I believe, Prime Minister, that in February when we last met to discuss the economy, few of us had very high expectations . . . but when the Conference ended, I think most of us were relatively satisfied with the overall outcome.

Some very significant policy guidelines were established and important goals were set for joint policy formulation. Many of us, I think, saw the policy guidelines as representing a major effort to re-instill confidence in our economy . . . particularly in the private sector.

Note: This text has been extracted from a verbatim transcript of the Conference.

There was general agreement that an expanding private sector should be the major impetus for growth in the Canadian economy, and that the expansion of jobs should come to the largest extent possible from business investment.

There was general agreement that the growth of government spending had to be curbed, that taxes had to be re-examined to locate and eliminate disincentives, and that the high levels of public deficit that most governments were tolerating had to be reduced, and reduced quickly.

In that connection, I think it is worthwhile to re-read in the light of some comments that have been made this morning about deficit financing, Item 4 of the February communique dealing with that topic. It reads as follows and I quote:

> *"Current large deficits limit the ability of governments to provide further economic stimulus through either increased spending or tax reductions but these deficits should be reduced quickly as the desired rate of recovery is achieved."*

I think that, taking into account some of the statements that were made this morning, particularly by the Minister of Finance, there was perhaps a tendency to blur the desirability of this goal. I suggest, with the greatest of respect, that it should remain one of the fundamental goals of all governments gathered around this table to reduce as much as possible the high levels of deficit where they apply and within the jurisdictions for which we speak.

There was, as well, general agreement that the burden of government regulation at all levels should be examined critically and, where possible without compromising the public interest, be reduced.

I can frankly say that those general agreements . . . together with the various sector and project task reports that arose from the February Conference represented a more substantial body of achievement than we had hoped for at the beginning of the Conference.

Unfortunately, Prime Minister, since February a great many opportunities have been lost to build on this foundation of agreement . . . and to make progress toward the objectives we identified.

There have been many examples — especially, and I don't wish to single out just the federal level — but there have been many examples at the federal level of decisions which appear unjustified in the view of the principles agreed to in February . . . decisions which may not have contravened the letter of the February agreements, but which certainly contradicted the spirit — and in so doing have undermined the goals we set at that time.

Let us consider some illustrations in which we find disappointment.

In our view, one of the most important principles that we affirmed in February dealt with the primary role of the private sector in the Canadian economy. At the time, we saw this as a major expression of our confidence in the market system — a major expression that was joined in by all eleven governments at the table. My impression is that the business community, labour and management as well, saw it the same way . . . and indeed, welcomed it.

But in the last few weeks we have seen such examples as Air Canada become involved in the purchase of Nordair . . . and PetroCanada move to take over Pacific Petroleum.

These actions imply quite rightly another contradiction of our agreement about the private sector and, in our view, represent questionable priorities, given the need for restraint and fiscal responsibility at the present time, and given the numerous legitimate purposes for which very limited available public funds are required today.

Let me speak for a moment about one urgent priority for the nation and for the western economy in particular — the upgrading of our grain transportation and marketing system.

Prime Minister, if nothing else emerges from this Conference, it is essential that we get agreement to do something about our grain transportation and marketing system. Our nation's economy has lost a minimum of $350 million in sales over the last year, and that works out roughly to about $2,400 for every grain farmer — because our facilities are not adequate. We have heard a great deal about the need to stimulate other industries where markets do not necessarily exist, but here in the grain trade, markets do exist. The product has been produced by our farmers . . . who are among the most productive in the world . . . but as a nation we cannot deliver that product to market.

That I suggest, is a topic that deserves imperative consideration by all governments because it is a national problem. I suggest that one concrete result of this meeting, therefore, should be agreement that the three Prairie Agriculture Ministers meet immediately with the federal Minister of Agriculture and with the Minister responsible for the Wheat Board . . . as well as with the Chairman of the Wheat Board, the presidents of the two national railways and representatives of our grain companies to discuss the problem and to work out a plan to resolve it before another crop year begins.*

---

* *The Grain Handling and Transportation Conference was held in Winnipeg on January 8-9, 1979. Several issues are now in the process of being resolved as a result of agreements at the Conference. Premier Lyon presented an updated briefing to the Western Premiers' Conference in Prince George, British Columbia, on March 26-27, 1979.*

I say this, because this would be part of what we must have — namely a national transportation policy that is geared into those target areas that we wish to nurture in the growth of new job opportunities in our economy. If we can help the western terminal policies, that would be a tremendous boost to a new transportation policy.

I am sure you will not be surprised if farmers in Western Canada question why the federal government can find $700 million to $1 billion of tax dollars to buy an oil company which, if I may say so, will not produce another gallon of oil or another cubic foot of gas, or produce another job, while at the same time that government is saying it has no funds with which to come to grips with the transportation and delivery of our traditional export product — grain. You will realize immediately why there is this lack of understanding in Western Canada about this kind of priority.

Another example of disappointment derives from our February commitments to restrain spending and reduce deficits. Few governments, if any, could be accused of breaking the ***letter*** of that agreement this year, but the ***spirit*** is quite another matter. The federal government continues to revise estimates of the 1978-79 deficit, and within the last few weeks it has announced its 1979-80 targets, namely 9 per cent spending growth, $10.8 billion in cash requirements, and a budgetary deficit of about $13 billion.

Some might argue that these figures represent fulfillment of the February commitment . . . but in our view . . . and given the difficult economic circumstances facing the country over the next year and longer . . . they do not represent the kind of real restraint and real leadership that all sectors of our economy urgently require.

Let me summarize for a few minutes, because that is one of the purposes of this meeting, the progress that we have attempted to make in Manitoba with respect to the February commitments.

We suggest on the basis of our expenditures that restraint and real fiscal responsibility *is* possible. It can be done. We have demonstrated that in Manitoba where our rate of increase in expenditures this year is estimated at about 3 per cent. In one year we have reduced our inherited deficit by about 40 per cent. In addition, we have cut personal and small business income tax, abolished succession duties and gift taxes, and a mineral acreage tax, eliminated the corporation capital tax on small business, and participated in the federal-provincial sales tax reduction program.

In addition, the civil service payroll of our province has been reduced by about 13 per cent and there is no evidence that the quality or the availability of essential government services has diminished.

And the effect of all this? Our province's economic performance has improved in several areas. Statistics Canada figures show that more jobs have been created in the last year than in the preceding three previous years combined . . . and that is by the private sector, by Manitobans, certainly not by the government.

In summary, Prime Minister, I can report that we have worked conscientiously in our province to translate the talk of fiscal prudence and responsibility that we all shared in our earlier Conference in February into practice in the public affairs of our province.

And in that regard, I would like to mention a recent press report in which your then President of the Treasury Board — and we congratulate him on his new position — is said to have announced, and I quote: "That he has become increasingly concerned that the federal government will have to bear the entire burden of cutting expenditures" and that the provinces "showed a lack of willingness to cooperate with the federal government in controlling their spending appetites."

I would hope that this is either a misquote or another example of what we call "Ottawaspeak." In the event that it was accurate, I can only assume that the Honourable Gentleman meant to exempt at least the Province of Manitoba from his remarks.

Let me speak for a moment of the most recent Budget of the federal government. There is much in the substance of that Budget which I believe can be fairly said to reflect the agreements we reached in February. And for that reason I congratulate you and your colleagues.

A reduction in the federal sales tax is welcome. The changes in the taxation of mining enterprises, while clearly inadequate to restore any real strength to that industry, are at least a step in the right direction.

In our view, however, too much of that program of tax reduction is being financed by an increase in what was already a very large federal deficit. We are also concerned that the so-called cuts that lie behind this Budget have too often taken the form of what is little more than a process of off-loading federal responsibilities onto the provinces. By that I am not saying for one moment that we are criticizing legitimate restraints on the part of your government — not at all. We would be the first to stand in line and throw our hat in the air at an example of legitimate restraint and fiscal prudence — and give you full credit for it.

But where the level of expectation of the public of Canada is that a program will continue in full force and effect, but the federal funding thereof is going to be cut back, and the provincial taxpayer must pick up the load, we

say, in our terminology, that that is really a kind of phoney restraint because the provincial taxpayer must then pick up the load. And there is only one taxpayer in Canada, be he municipal, provincial or federal. It is John Q. Citizen or Jane Q. Citizen and that kind of restraint does little to help the overall fiscal situation of the country.

I will have some comments to make on this process as it affects federal programmes for Indian people as I finish these remarks.

But, we are not here simply to evaluate the way your government has translated our agreements of February into action. We are also here to look as hard and as critically at the management of public affairs in areas which affect us all.

At the Provincial Premiers' Conference in August, the provinces offered a list of specific suggestions where federal reductions should be considered to eliminate duplication of service and increase program efficiency.

We acknowledge your response in last week's announcement concerning the abolition of one department of government.

In our view, significant rationalization should also be possible in a number of other areas without affecting necessary services and transfers. For example, it should be possible to effect some considerable administrative savings in such areas as DREE.

I also refer to the Report of the Auditor-General released last Thursday. In it, the Auditor cited a number of examples of inadequate federal financial management - procedures which, if acted upon, could save tens, if not hundreds of millions of dollars for Canadian taxpayers.

A continuing evaluation and reappraisal of financial plans for next year is in order for all of our governments over the next few months. Clearly . . . as we in Manitoba have attempted to demonstrate . . . it *is* possible to reduce both taxes and borrowing by substantial proportions through effective spending control.

I would hope, therefore, that we can lay out the beginnings of more specific guidelines for public spending — including public sector compensation — to apply to Crown agencies, to organizations whose primary financial support comes from government, and to local governments in addition to federal and provincial governments. This is the kind of strategy that is needed, and I think for which the people of Canada are looking to you with confidence. I hope that within these guidelines we would look ahead, not merely to 1979-80, but for at least an additional two or three years into the future.

The second goal I hope we can achieve at this Conference, Prime Minister, is to begin to take concrete steps to eliminate duplication of services.

Heaven knows, there is no shortage of lists. There is a shortage, however, of effective mechanisms to translate these into real savings. I would hope that we could select at least one or two priority areas for examination and that work could begin in those areas under the auspices of this Conference.

The third thing I hope we can achieve will be to agree on at least an informal but regular system of close consultation with the provinces with respect to monetary policy through the Bank of Canada. I make it clear, Prime Minister, that we are not asking in any way for any transfer of federal power in this regard at all, but rather are looking for more effective participation in the consultations which lead to fundamental monetary decisions — all of which impact directly on the provinces.

In Manitoba, economic growth, to give you an example, depends largely on small businesses and farm enterprises as it does in many other provinces. Those small enterprises have a limited ability to absorb or to pass on increases in the cost of borrowing. As a result, changes in interest rates can have a much more profound effect on Manitoba than in some other parts of Canada where major businesses can finance long-term debentures at fixed rates of interest, and so on. Smaller businesses, as we all know, tend to finance on a demand note basis and when the interest rates go up, so do their carrying charges. These regional differences make consultation on such matters of monetary concern quite critical.

On a related point concerning capital flows, I would reiterate what I said in February, namely, that under a different heading, I will be suggesting the abolition of the Foreign Investment Review Agency.

We believe this monetary consultation must go hand-in-hand with at least an informal effort to maintain a central capital requirements clearing house. This is something I think the provinces should participate in and participate in willingly — again, not surrendering any of their constitutional jurisdiction, but rather agreeing to consult with the federal authority on a regular basis in order that there can be better monitoring of off-shore borrowing, and the placement of that off-shore borrowing.

We all realize that projected federal-provincial-municipal borrowing requirements over the next number of years are huge. The importance of reasonable coordination of those requirements was pointed out in our February statement. Since then I have noted that similar suggestions have been put forward by the Minister of Finance for Quebec and the Economic Council of Canada. We still support that view, and would be a willing

participant in such a monitoring agency, which would lead to, we think, a better control in the national interest of the placing of foreign borrowing.

There is, Prime Minister, a fourth goal that I hope we can achieve at this Conference. I hope that we will be able to clarify just what kinds and levels of consultation it is realistic for the provinces to expect from your government.

I think it is fair to say that your government apparently meant in some areas something quite different by "consultation" than we had meant when we talked about it in February.

There is no point now . . . it would not be productive . . . in arguing about whether or not various problems over the summer violated our earlier agreement to consult.

I would hope, Prime Minister, that you will state clearly at this Conference, the kinds and levels of consultation to which you are prepared to commit your government . . . and that you and your Ministers will then be bound by that statement unless it is varied in one of the successors to this Conference.

That seems to be critical to a continuation of the basic cooperation among governments that we had hoped would evolve from these conferences.

I refer again to the opening comment or the statement which was made that growth proceeds from a sense of trust. I think if that sense of trust can be unburdened, if we can understand what the process of consultation can be, if we can understand that there will not be a further rash of unilateral decisions that can impact directly on the provinces without at least some preliminary consultation, that that element of trust that we all wish to see established among all eleven governments at the table, will be enhanced.

There is, Prime Minister, a last goal that I hope we can achieve here. I mentioned it briefly earlier in my remarks. We are talking here of ways and means of maintaining and increasing the capacity of our economy to generate income and prosperity and jobs for our people. I do not believe it is acceptable to do that without also speaking of those who have not been full partners in the prosperity we have already built.

I am speaking of the Indian peoples of Canada. I would suggest that discussions of those problems belong on the agenda of this Conference, Prime Minister, and later under the regional development item, we intend to speak about this matter and the current status of federal-provincial negotiations.*

---

* *Recently the Continuing Committee of Ministers on the Constitution has been asked to consider developing a process to work toward the resolution of Indian issues. As well, tripartite negotiations (Canada-Manitoba-Manitoba Indian Brotherhood) on Indian programs are expected to be reconvened shortly.*

I believe that we all realize that the answers are not easy. We all know that, but I believe it will be a positive and healthy change to locate the discussion of our Indian affairs matters under the auspices of an economic conference of First Ministers rather than, as has been the case for too long, on the agenda of meetings of Ministers of Welfare.

Last February we laid, I believe, a sound foundation for cooperation on economic policy, and since then Manitoba has tried to apply the principles upon which we agreed at that Conference. Heaven knows, we have not always been successful in what we have tried, but I think all governments, the federal government, and all provincial governments in their own way, have been trying. The challenge that faces us now is to build on that foundation with measures that are calculated to contribute not only to our economic welfare, but also the ability of all Canadians to take part in and to benefit from the economic life of this country.

Prime Minister, I close by reiterating what I said in February: we need to invigorate the kind of private economic activity that will create the wealth . . . and the opportunities . . . and the challenges our people have a right to expect . . . and indeed, to demand.

Governments cannot make all of that happen . . . but governments in Canada ***can*** get out of the way and let the resourcefulness of our people make it happen.

I remain convinced, that we have the means to do it . . . What we need now is the will.

NOTES FOR A STATEMENT ON GOVERNMENT REGULATION BY PREMIER STERLING LYON

Prime Minister:

At our conference in February, I was pleased to have an opportunity to open discussion of the impact of government regulation on the Canadian economy. As you will recall, we agreed, at the conclusion of that meeting, to refer the matter to the Economic Council for study and recommendations. I am happy to be able to introduce this subject once again today.

Although a number of us have been critical of recent developments in other areas of follow-up since February, I think that on the whole our joint work on government regulation has proceeded reasonably well. It is clear that progress is being made . . . albeit slowly . . . and certainly more slowly than many of us would have liked. . .

We have received copies of the Economic Council's preliminary report describing its initial work on the regulation reference and providing details of its research proposals. The Council proposes to complete its work by the end of 1980, but to provide an interim report to our governments by the end of next year, and to circulate individual studies as soon as they are completed.

While this schedule is certainly longer than envisaged in February, I have been assured that . . . given the comprehensive and rather ambitious nature of the Council's proposals, and given the fact they are expected to break new ground in many areas . . . the delay is understandable.

Some fundamental questions are to be asked about the rationale for much of what governments have been doing in recent years. The study will be of value if it can expose these new perceptions and, ultimately, change some attitudes.

At the same time, it is essential that our governments not simply adopt a "do nothing" stance while awaiting the Council's report. At the Premiers' Conference in August, all provinces emphasized that action is necessary ***now*** to reduce federal-provincial service duplication, and we pointed out that long term studies were not necessary to achieve that goal. In fact, we identified a number of areas where work could get underway immediately.

And, of course, within our own governments, we are all aware of the need to proceed expeditiously to review our own regulatory activity on a priority basis. It is apparent that virtually all our governments share the view that delays should be minimized because, as an appendix to the Council's report indicates, special regulation studies are now underway in most provinces in response, in part at least, to our discussion and agreement at last February's Conference.

Turning to the report, it is noteworthy that . . . nine and a half months after our February Conference, and four and a half months after the formal reference was sent to the Council by the Prime Minister . . . no one has yet been able to determine even such basic information as how many regulations exist. . . much less how much they cost to administer, and what their direct and indirect impact may be on our economy — either in total, or on an individual basis. However, the Council has made an interesting start by pointing out that the number of federal economic regulations has more than doubled in the last twenty years. A similar pattern is probable when compilations are done for provincial and local governments. In this connection, I note that one of the priority tasks identified in the Council's report — in which all our governments will be cooperating — will be to prepare an inventory and analysis of regulatory activity within a common, jointly-developed framework so as to permit comparability. This should prove to be a very useful basis for reform.

One of the major concerns emphasized during our February discussions was the fact that regulations are often passed without adequate input from

those individuals and groups who will be affected. For this reason, several of us made it clear that we wanted adequate private sector consultation during the study. The Council's preliminary report points out that a major effort has been made to ensure private sector input, and I understand that the response of various private sector groups has been quite positive up to now. It is essential that this consultative process be maintained throughout the study. Our own governments can, of course, complement these consultative arrangements by ensuring that we involve the private sector in our own concurrent regulatory reviews.

Just as private sector consultation is essential, it is also extremely important to ensure adequate liaison among our governments and the Council to ensure that we all will benefit from each other's experiences. There is always a danger — as there is with every suddenly-"popular" issue — that a sort of "bandwagon" effect will take place — leading to study after study of essentially the same problem. There is certainly that danger here, and I think we must all guard against duplication in our research. There is a need to ensure coordination, and I think an important step has been taken by establishing a special federal-provincial liaison committee to work with the Council for the duration of its study.

Within our own Government, we have set up a special working group to coordinate Manitoba's input into the national exercise and to direct our efforts to rationalize the provincial regulatory process. We readily admit that we want to learn from the experience of other jurisdictions . . .and put it to use . . . and, in this regard, we welcome assurances by the Economic Council that its reports will include concrete, practical recommendations for reform. I would urge the Council to advance these recommendations, if only in a tentative form, as a matter of the highest priority.

The details of the Council's study plan itself are, I believe, still considered to be tentative and subject to revision based on our discussions here. In this connection, I note that the report excludes any reference to planned analysis of the Foreign Investment Review Agency, despite the fact that a number of provinces expressed concerns about FIRA at the February Conference and yesterday.

I make no secret of the fact that I believe FIRA should be abolished.

If, however, the federal government is not prepared to act to close down the agency as I think it should, then I would argue that the subject should be referred on a priority basis to the Economic Council for an independent study and early report.

We also have a concern about another item in the proposed plan — the suggested study of regulation affecting the telecommunications industry. While this is an important subject, it is also one where, I understand, a number

of similar studies are already underway. In the interests of avoiding duplication, I would suggest that this aspect of the Council's study should have a lower priority... or simply be deleted.

I will be very interested in hearing the comments and concerns of other First Ministers on this issue, but before concluding, it is probably worth repeating, briefly, some of the general observations I made last February.

First — I want to emphasize that our Government in no way sees the current review of regulation as a step towards a wholesale dismantling of essential regulatory activity in such fields as health protection. Our primary concerns are:

- to get rid of unnecessary red tape and out-of-date rules;
- to make certain that the full economic and social benefits and costs of both existing regulations and new ones are measured and made known;
- to streamline and simplify compliance procedures, report forms, and so on; and finally,
- to improve consultation in the regulatory process to ensure accountability at the political level and within the bureaucracies involved.

Based on developments up to now, I feel reasonably confident that we can make tangible progress toward these objectives relatively soon — especially, as I said earlier, if review efforts within our governments proceed concurrently and in a coordinated way with the Council's study . . . and with each other's.

Finally, as I said in February, a great deal of our current problem with over-regulation arises from the profligate spending and lack of adequate financial management of the past decade or so. One of the best ways of avoiding a further spread of new regulations is simply to apply real restraint or fiscal responsibility in spending. Such restraint can reduce tax burdens, increase confidence in our economy, and ultimately help the market system operate more effectively — which, of course, is the ultimate objective of our de-regulation efforts.

FEDERAL-PROVINCIAL CONFERENCE OF MINISTERS OF FINANCE AND MINES, OTTAWA, NOVEMBER 3, 1978

NOTES FOR A STATEMENT ON RESOURCE TAXATION IN CANADA, HONOURABLE DONALD W. CRAIK, MINISTER OF FINANCE.

Mr. Chairman:

At the First Ministers' Conference last February, Manitoba joined other governments in emphasizing the importance of a joint federal-provincial review of resource taxation. In our view, the joint review was essential to develop a common assessment and understanding of the impact of changes in income and mining royalty taxation during the 1970's.

As well, I think many Ministers were concerned that, in the absence of a joint review, each level of government would continue to be quite defensive about its own revenue position. Under that approach, each level of government would suggest that the Canadian mining industry seek any taxation adjustments or improvements thought to be necessary from the other level of government. In those circumstances, the industry would continue to be caught in the middle, with little prospect of attaining some needed improvements.

The report, prepared jointly by our officials, represents a real and significant contribution to our understanding of economic and taxation conditions facing the industry.* Certainly, the report may be characterized as being "diplomatic" in tone, in that it deliberately avoids emphasis on certain of the taxation facts. Nonetheless, the joint work undertaken by our officials confirms a number of facts which should serve as a basis for policy discussions. Among the more relevant or important facts confirmed by the report are the following:

— The total aggregate burden of income taxes and royalties or mining taxes facing the mining industry more than doubled, from about 20% of total profits in the 1969-1971 pre-tax reform years, to almost 42% of profits in 1975.

---

* *The "Federal-Provincial Resource Taxation Review" joint report by federal and provincial officials to Finance Ministers and Resource Ministers was released during the First Ministers' Conference on the Economy November 27-29, 1978.*

— The relative tax advantage accorded the mining industry relative to manufacturing, taking all income taxes and royalties or mining taxes into account, was 19 percentage points of profit in the 1969-1971 pre-tax reform years. By 1975, this had been replaced by a 9 point disadvantage.

— The doubling of the aggregate taxation burden facing the mining industry since the pre-tax reform years has adversely affected Canada's long-standing, historically favourable taxation climate, so much so, that by 1975, Canada was no longer viewed as having an exceptionally favourable taxation climate.

— The increases in aggregate taxation burdens have not been confined to the provincial level. While provincial increases have accounted for about three-quarters of the total increase the federal government has been responsible for the remaining quarter — a noteworthy increase over a period in which federal nominal income tax rates were reduced.

Mr. Chairman, increases of this magnitude might not be all that troublesome, or cause for substantial concern, if the industry had continued to perform as it had in the pre-reform years, or, if prospects for future growth and expansion of this vital Canadian industry were encouraging.

However, the joint report by officials concluded:

> *"A change in the industry occurred around 1970 with a deceleration in growth for long-term reasons, beyond normal cyclical factors. This deceleration has been acompanied by an increase in the proportion of mineral investment of Canadian based firms in mineral exporting countries with which we compete. This appears, at least in part, to indicate a realization that our deposits, particularly base metal deposits, have become more costly to find and less competitive."*

This conclusion is reinforced by the economic analysis which indicated an average decline in employment in mining, smelting and refining of 0.6% over the 1971-77 period, compared with an average annual growth rate of 1.6% over the 1961-1971 period.

Other economic indicators also confirm this view. For example, the report notes that Canadian exploration expenditures in constant dollars declined over the 1971-75 period, in contrast with the experience in South Africa, Brazil and the Philippines — countries with which Canada competes for such investment. The report also referred to the fact that expenditures on research and development by the mining sector have been stagnant in current dollars and declined substantially in constant dollars, thereby adding to concern about the long-term performance of the industry. Finally, the

economic analysis contained in the report indicates that significant declines in Canada's share of world copper, nickel, lead, zinc, gold, and asbestos production have occurred since 1971.

Although the report represents a good narrative on the decline of the industry in Canada, its analysis of the causes of the decline appears somewhat incomplete. After referring to the current decline as more than a normal cyclical downturn from which recovery could be expected, the report lists the main factors contributing to the long-term decline as increased competition from abroad, increased costs of inputs — both labour and machinery — and tax systems. However, the report does not give any indication of the impact of current taxation regimes on the decline.

Mr. Chairman, the statement of conclusions of the Federal-Provincial Mines Ministers' Conference in Toronto last January, contained a summary economic review of the mining industry which demands our consideration. The Ministers stated:

> *"The Canadian Mining Industry is, in general, in a period of serious economic difficulty. Studies carried out by the Department of Energy, Mines and Resources on the problems now being experienced by many mining communities in Canada indicate that until 1982 there will be little increase in demand, poor profits and increased competition from the lesser developed countries. After 1982, there should be an opportunity for growth as the world demand for minerals increases. However, cooperative action must be taken by both federal and provincial governments if this country is to have a strong mining industry capable of participating in these new increases."*

Mr. Chairman, these facts will be given careful attention in the final stages of our own internal review of the Manitoba incremental rate system. Certainly, we are anxious that cooperative action be taken by both the federal and provincial governments to provide a more competitive taxation climate and needed stimulus for the industry.

The critical question facing us at this Conference and at the First Ministers' Conference later this month is whether the federal government is prepared to show leadership in providing the stimulative tax action necessary to assure a *"strong mining industry capable of participating in these new increases."* For our part, we are willing and anxious to cooperate.

Of course, the timing of the federal Budget, scheduled for two weeks prior to the First Ministers' Conference, may add to the difficulty of approaching this matter in a coordinated way. Certainly, it would be extremely

disappointing if this report were too late for consideration in preparation for that forthcoming Budget.

Perhaps, it would be helpful if Manitoba were to present its views on the kinds of stimulative action which would be most beneficial.

First, on the general question of tax rates, the federal government should align the nominal federal income tax rate facing the mining industry with that facing manufacturing. This would involve a reduction in the nominal federal corporation income tax rate facing the mining industry from 36% to 30%. It would be a progressive step. It would demonstrate clearly to the industry that governments recognize its importance to Canada. And, under current rules, it would reduce the maximum marginal rates facing the industry by about 4.5% after the resource allowance.

In addition, there are a number of specific changes to the corporation income tax base — all of which would affect ***both*** the federal and provincial income tax revenue potential — which should be considered:

> First, actual provincial royalties paid should be treated as a legitimate business expense for income tax purposes, on the same basis as royalties paid to private mineral rights owners, and on the same basis as any other governmental charge, including excise and sales and property taxes, incurred in the course of business activity. This is essential to any recognition of provincial constitutional rights to levy appropriate charges for the severance of natural resources.
>
> This does not imply any adjustment to the current resource allowance system which could be retained as a general incentive for the industry. In fact, retention of the resource allowance could be viewed in part as a replacement for some specific tax incentives withdrawn or substantially reduced during the 1970's, including the withdrawal of the 3 year income tax exemption accorded new mines and the reductions in depletion allowances.
>
> Secondly, due to the long lead time so often required between the actual exploration and development activity and the income flows from the mine, consideration could be given to adjusting the base for claiming exploration and development expenditures for depletion purposes to allow for inflation, so as to ensure that the value of the tax deduction finally obtained reflects the real value of the expenditures made.
>
> In addition, the definition of expenditures eligible to earn depletion should be broadened to include expenditures on social infrastructure and the purchase of Canadian resource properties.

Thirdly, the income tax deduction permitted with respect to development expenses under the national income tax system should be aligned with the 100% rate utilized in Ontario and Quebec.

Fourthly, urgent consideration should be given to the provision of appropriate mechanisms and incentives to mobilize private venture or risk capital for metal mining. Possibly, comparable tax treatment to that currently provided for investments in Canadian films could be extended to smaller mining and exploration companies through the venture enterprise investment concept.

Similarly, consideration should be given to exempting the proceeds of sale of new discoveries by prospectors and grubstakers as an incentive for exploration for new mining deposits.

Manitoba recognizes that adjustments to our mining royalty system are necessary. Changes will be introduced at the next Session of our Legislature to reform the current system. The reforms will be geared towards assuring a realistic royalty system, fair to the industry and people of our province, and a system which does not inhibit but rather encourages development in our province.

If there is one message which we feel should be brought to Ottawa and to the First Ministers' Conference, it is that Canada requires a national tax system supportive of continued growth and development of mining in Canada. As already noted, we in Manitoba intend to act. We trust that the federal government will indicate its intention to also provide stimulative action either now, in its forthcoming Budget, or at the First Ministers' Conference later this month.*

---

* *The Honourable Jean Chretien's November 6, 1978 Budget Address contained a number of the measures advocated in this statement. Development expense write-offs were increased to 100%, exploration expense deductibility for non-resource corporations and individuals was extended and the definition of expenditures eligible to earn depletion was expanded to include expenditures on social infrastructure. It should be noted, however, that the federal Budget failed to act on Manitoba proposals on such fundamental reforms as the rate structure, the treatment of provincial royalties, and reasonable accounting for the effects of inflation on this sector.*

FEDERAL-PROVINCIAL CONFERENCE OF MINISTERS OF FINANCE, WINNIPEG, JULY 6, 1978

NOTES FOR A STATEMENT ON THE SHORT-TERM ECONOMIC AND FISCAL SITUATION, HONOURABLE DONALD W. CRAIK, MINISTER OF FINANCE.

Mr. Chairman:

Nearly five months have passed since the First Ministers met in Ottawa to discuss a broad range of economic problems and to consider various options for ensuring that this country's rate of development begins to approach its potential in the reasonably near future.

Although the February Conference ended in a relatively positive way, with agreement on a number of basic principles and follow-up plans, most Canadians — and all of us around this table, I am sure — have become increasingly concerned with still-ominous signs of economic sluggishness.

For some time, we have been skeptical about the chances of achieving a 5% real growth rate nationally in 1978, and after the release of the first quarter G.N.P. statistics, we are even more doubtful.

And, despite a substantial increase in the number of employed, the rate of unemployment has remained unacceptably high.

At the same time, we have been very disturbed by what could well be termed an alarming increase in the Consumer Price Index in the past several months. Although we recognize that much of the increase is a result of food prices, and that the prices of non-food items have not been growing as quickly, these developments cannot help but have a negative effect on investor and consumer confidence. There are already more labour-management disputes than I think many of us had expected in the wake of the start of decontrol. Even though the attitude of both employers and employees, on the whole, has been quite responsible up to now, it is not difficult to foresee major problems on both the price and compensation sides if the C.P.I. continues to grow at close to double-digit rates in the coming months.

One obvious positive factor has, of course, been the joint effort by most of our governments to reduce retail sales taxes on a temporary basis.

While it is probably too early to make any firm predictions about the impact this measure will have on both the national and provincial economies, there are already signs of improved sales in a number of sectors, and we are all aware that the growth in the Consumer Price Index has been held down because of the tax cuts.

Since this is the first opportunity for Finance Ministers to discuss the sales tax reduction plan at a general meeting, I think it would be worthwhile to clarify the Manitoba Government's position on the measure.

In simple terms, we support the reduction in principle — and have contributed over $20 million of our own potential revenues toward it. Without rehashing details of its implementation, perhaps it is sufficient to say that this unique "experiment" in federal-provincial juxtapositioning of authorities will be tried differently if a further occasion arises.

An obvious place to put any lessons to work would be to start discussing *now* whether or not the reductions should or can be extended beyond their current termination dates. Obviously, there are a great number of issues involved, including the as-yet-uncertain impact of the reductions on the economy, the cost of an extension in revenue terms, the need for special arrangements for those provinces which have already opted for an extended reduction, and — we would argue — the need to re-open the question of compensation, since we believe our Province, at least, is entitled to more equitable treatment based on our relative economic and fiscal position.

The cost of the reduction to our treasuries is one of the most troublesome issues. Few of our governments could be described as having a buoyant budgetary position. Even with the significant reductions we have made in the rate of growth of spending in Manitoba — giving us the lowest rate of growth, by a significant margin, of any of the senior governments in Canada this year — we are still running a sizable deficit and would have to weigh a number of factors in deciding on whether or not to opt for an extension.

Certainly, a decision with respect to an extension would be extremely difficult for the federal government as well, particularly with 1978-79 cash requirements already forecast at $11.5 billion. On the other hand, it could be noted that there should be around $700 million in additional federal revenues available early next year if the extra $100 personal income tax credit allowed for 1978 is not repeated. In addition, recent figures which we have seen indicate that the 10¢ per gallon federal excise tax on gasoline is generating between $250 million and $300 million in excess of requirements to subsidize the price of imported oil in eastern Canada. The reduction or removal of this tax would

have a positive impact on the Consumer Price Index, as well as on purchasing power.*

Given the size of the federal government's deficit, there are concerns as to whether the federal treasury can stand further depletion, unless, of course, some move is made to reduce the deficit in other areas.

And, in this vein, it is our firm belief that the commitment to restraint at the federal level must be demonstrated more clearly and unequivocally if consumer and investor confidence are to be restored in the near future.

Here in Manitoba, we are attempting to effect changes in that direction. Obviously, our success will have to be judged over more than a one year period, but we believe we have made an important start towards the kind of efficiency in government which is essential to restore health to a productive mixed economy and a more balanced system.

In a sense, the message of "Proposition 13" got to Manitoba a little before it got to California.

Before concluding, I want to deal briefly with some of our other specific concerns in the area of federal-provincial financial relations. Time may not permit us to discuss all these issues here, but I would hope there will be an opportunity over the next several months for us to deal with them.

> The first, and I know it is a concern of other provinces as well, is the question of lotteries . . . the apparent intent of the federal government to extend Loto Canada beyond 1979, and the decision to move into further competition with provinces by initiating a modern equivalent of an electronic punch board. Both these intrusions appear to be violations of earlier federal-provincial understandings. I assume we will be discussing this matter later today under "Other Business" if we have time.
>
> The second is the matter of the financing of services for registered Indians. Manitoba has been working on a possible new set of federal-provincial financial arrangements in this important area, but in recent months our progress in negotiations with the Government of Canada has slowed markedly. I will be meeting with the Minister responsible for Indian Affairs and Northern Development on Monday of next week in the hope of moving toward an early agreement.

---

* *The 10¢ federal tax was lowered to 7¢ in September, 1978, to coincide with an oil price increase at the retail level.*

The third problem is our growing concern about DREE and its influence on provincial priorities. For some time, Manitoba has been pressing for a Tourism Development Agreement, in line with the emphasis at the First Ministers' Conference on the importance of this industry for our economy, but up to now, despite some encouraging statements by the federal Minister several months ago, DREE has appeared reluctant even to enter into serious negotiations with us. I have written to the federal Minister to advise him of our wish to proceed expeditiously on this matter, and I hope to receive a positive response quite soon. If I do not, I will want to raise the issue at our next conference and I assume our Premier would want to discuss it at the First Ministers' Conference as well.

A fourth problem involves financial aspects of the proposed new Community Services Grant Program which involves block grants to replace the Neighbourhood Improvement Program and certain other federal cost-sharing for municipal services. While I understand most provinces are reasonably satisfied with the resolution of non-finance issues related to the new program, I believe the majority have voiced concern about the proposed interprovincial allocation formula, the magnitude of federal contributions, and the fact that normal provisions for interim advances to provinces have not been included in federal agreement proposals up to now. Apparently there was a general consensus at a recent Housing and Urban Affairs Ministers' Conference that Finance Ministries should become more directly involved in the review of these issues which has been scheduled for the next few months. Depending on the outcome of that review, it may be appropriate to discuss some of these questions at our next meeting in the Fall.

Finally, I know we will be discussing preparations for the next First Ministers' Conference later today, but, in case time runs short, I want to refer briefly to one item of particular interest to our province and to several others, I know. At the February Conference, we were assigned responsibility, in conjunction with Resource Ministers, for a joint study of resource taxation. I believe that plans are being made to have the Resource Ministers join us at our next meeting to discuss this matter.

Along with a number of other provinces, I think, Manitoba was concerned about what appeared to be a very slow start to the joint review agreed to by the First Ministers in February. I am told that the first federal-provincial meetings of officials — on a bilateral basis — did not take place until May.

Given the degree of concern about the future of the mining industry in Canada, and the need to provide assurances that enterprises engaged in mining will have an opportunity to earn a fair return, we feel it is essential to proceed with this study as expeditiously as possible.

I was pleased to hear that a general meeting of Finance and Resource Department officials has been scheduled for the end of this month to prepare the necessary background material for our discussions in the Fall. I feel it is essential for us to have comparable statistics, and I understand that the work of the Mining Association of Canada has been extremely helpful in this regard.

From the limited information we have seen thus far, it seems quite clear that reductions are necessary in the rates of tax on the mining industry in Canada. There is no question that provincial taxes are a major concern for the industry at this time, but it is equally true that effective federal rates are higher now than they were at the start of this decade. And, of course, despite some apparent benefits from the resource allowance, the provinces are still very concerned about the principle of resource ownership and the disallowance of deductibility of royalties as legitimate expenses. Without wanting to prejudge the outcome of our joint review, I would hope the Government of Canada recognizes that the process of reducing levels of resource taxation is a two-way street and that it is not only the provinces which should be expected to re-assess their tax structures. I might add . . . it is my impression that the Mining Association shares this view.

I will look forward to hearing the view of other Ministers on these questions.